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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES, Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
BASED THEREON FOR UTILITY SERVICE

DOCKET NO. W-02069A-08-0406

**NOTICE OF FILING
REBUTTAL TESTIMONY**

1 Sunrise Water Co. ("Sunrise") hereby files the rebuttal testimony of Marvin Collins and
2 Ray Jones.

3 RESPECTFULLY SUBMITTED on March 27, 2009.

4
5
6 *Craig A. Marks* by *Marvin E. Collins*
7 Craig A. Marks
8 Craig A. Marks, PLC
9 10645 N. Tatum Blvd.
10 Suite 200-676
11 Phoenix, AZ 85028
12 Craig.Marks@azbar.org
13 Attorney for Sunrise Water Co.
14

Arizona Corporation Commission
DOCKETED

MAR 27 2009

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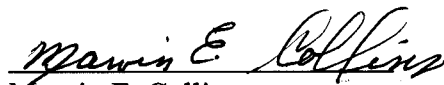
9 **Copies of the foregoing mailed on**
10 March 27, 2009, to:

11
12 Wesley C. Van Cleve
13 Attorney, Legal Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007
17

18 Ernest Johnson
19 Director, Utilities Division
20 Arizona Corporation Commission
21 1200 West Washington
22 Phoenix, Arizona 85007
23

24 Dwight D. Nodes
25 Assistant Chief Hearing Officer
26 Arizona Corporation Commission
27 1200 West Washington
28 Phoenix, Arizona 85007
29

30
31
32 By:


33 Marvin E. Collins
34

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**REBUTTAL TESTIMONY
OF
MARVIN E. COLLINS
ON BEHALF OF
SUNRISE WATER COMPANY
MARCH 27, 2009**

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EXECUTIVE SUMMARY

Marvin E. Collins testifies as follows:

Mr. Collins first identifies the recommendations and adjustments proposed by Arizona Corporation Commission Staff ("Staff") that are acceptable to Sunrise Water Co. ("Sunrise").

He then explains why it is appropriate to normalize hydrant sales as proposed by Sunrise. Test-year sales were inflated for three reasons:

1. Constructions activity and resulting hydrant-water sales peaked in 2006, began to decline in 2007, and has now declined well below 2003 levels;
2. More than one-half of 2007 hydrant water sales were to support a regional flood control project, which is now complete; and
3. Most of 2008 hydrant-water sales were for the flood control project and for Phase I of the Happy Valley Road expansion, which is also now complete.

He then provides a discussion of the services provided to Sunrise by SRW Consulting and explain why they provide benefit to ratepayers and should be included in Sunrise's expenses.

He next explains why Sunrise's rent expense should include costs incurred to lease workshop, storage, and field office space. The Well No. 7 site could not be used without significant, expensive construction and a zoning variance. Other existing office space is not adequate.

Finally, he responds to Staff's testimony position to not include test year income tax expense for Sunrise. Failure to include these legitimate expenses would financially harm Sunrise and affect Sunrise's ability to fund future infrastructure projects.

I INTRODUCTION

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE
NUMBER.**

A. My name is Marvin E. Collins. My business address is 9098 W. Pinnacle Peak Rd.,
Peoria, Arizona 85383, and my business phone is (623) 972-6133.

**Q. ARE YOU THE SAME MARVIN E. COLLINS WHO PREVIOUSLY
SUBMITTED DIRECT TESTIMONY IN THIS DOCKET?**

A. Yes.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In my testimony:

- I identify the recommendations and adjustments proposed by Arizona Corporation Commission Staff ("Staff") that are acceptable to Sunrise Water Co. ("Sunrise").
- I explain why it is appropriate to normalize hydrant sales as proposed by Sunrise.
- I provide a discussion of the services provided to Sunrise by Mr. Rip Wilson and explain why they provide benefit to ratepayers and should be included in Sunrise's expenses.
- I explain why Sunrise's rent expense should include costs incurred to lease workshop, storage, and field office space.
- Finally, I respond to Staff's testimony position to not include test year income tax expense for Sunrise.

III STAFF ADJUSTMENTS

Q. HAVE YOU REVIEWED STAFF'S DIRECT TESTIMONY IN THIS CASE?

A. Yes, I reviewed the testimony provided by Mr. Alexander Igwe and Mr. Jian Liu.

Q. IS SUNRISE WILLING TO ACCEPT THE RECOMMENDATIONS MADE BY STAFF?

A. Sunrise believes that Staff has completed a thorough review of Sunrise's filing and has evenhandedly evaluated Sunrise's plant records, test year income, and test year expenses and made many sound recommendations that are acceptable to Sunrise. I will discuss each of them in turn.

Q. DO YOU ACCEPT STAFF'S COST OF CAPITAL RECOMENDATION?

A. Yes, Staff has recommended adoption of Sunrise's proposed 10 percent Fair Value Rate of Return.

Q. WHICH OF STAFF'S RATE BASE ADJUSTMENTS DOES SUNRISE ACCEPT?

A. Sunrise accepts Staff Rate Base Adjustment No. 1, which increases accumulated depreciation by \$135,964 over Sunrise's proposal of \$2,492,247.

Q. WHICH OF STAFF'S OPERATING INCOME ADJUSTMENTS DOES SUNRISE ACCEPT?

A. Sunrise accepts the following Operating Income Adjustments:

Operating Income			
<u>Adjustment No.</u>	<u>Expense Category</u>	<u>Adjustment Amount</u>	
2	Salaries and Wages	(\$68,913)	
3	Salaries and Wages	\$4,243	
5	Office Supplies Expense	(\$1,500)	
7	Water Testing Expense	\$2,184	
10	Rent Expense	\$1,500	
11	Rent Expense	\$19,521	
12	Transportation Expense	(\$3,508)	
13	Transportation Expense	(\$8,485)	
14	Transportation Expense	(\$6,300)	

16	Miscellaneous Expense	(\$2,285)
17	Miscellaneous Expense	\$6,413
18	Miscellaneous Expense	\$50,216
19	Miscellaneous Expense	(\$19,521)
20	Depreciation Expense	<u>\$10,210</u>
Total accepted Operating Income Adjustments		(\$16,225)

IV HYDRANT WATER SALES

**Q. WHAT IS STAFF'S RECOMMENDATION REGARDING SUNRISE'S
PROPOSAL TO NORMALIZE HYDRANT WATER SALES REVENUE?**

A. Staff has recommended denial of Sunrise's proposal to normalize hydrant water sales, which has the effect of increasing test year revenue by \$47,815.

**Q. PLEASE SUMMARIZE STAFF'S ASSESMENT OF SUNRISE'S PROPOSED
METHOD FOR CALCULATING NORMALIZED HYDRANT WATER SALES?**

A. Staff states that Sunrise's method for calculating normalized hydrant water sales is flawed. Specifically Staff relies on two reasons for rejecting Sunrise's method:

- The five year average includes three years of very low water sales which results in understatement of normalized hydrant water sales.
- Sunrise understates its normalized level of test year hydrant water sales by deducting the hydrant water sales to the Maricopa County Flood Control District.

Q. DO YOU AGREE WITH STAFF'S ASSESMENT?

A. No I do not.

Q. PLEASE DESCRIBE THE FLOOD CONTROL PROJECT.

A. The Flood Control Project is the 83rd Avenue / Pinnacle Peak Road Drainage Improvement Project constructed by the Maricopa County Flood Control District, in cooperation with the City of Peoria and Maricopa County Department of Transportation.

1 The project was designed to provide 100-year protection to the area between Calle Lejos
2 and Deer Valley Roads, and approximately 87th to 83rd Avenues and 10-year protection
3 between 87th and 91st Avenues. The project included several components:

- 4 • Construction of two detention basins (the Pinnacle Peak Basin at the northwest corner
5 of 83rd Avenue and Pinnacle Peak Road, and the Avenida del Sol Basin at the
6 southeast corner of Avenida del Sol and 87th Avenue);
- 7 • Construction of a 100-year storm drain along Calle Lejos, 87th Avenue, 83rd Avenue,
8 and Pinnacle Peak Road; and
- 9 • Construction of a 10-year storm drain along Cielo Grande, Avenida del Sol and
10 Pinnacle Peak Rd.

11 Attached as Exhibit MEC-R1 is a Project Design Bulletin issued by the Flood Control
12 District, which describes the project in greater detail.

13 **Q. IS THE FLOOD CONTROL PROJECT REPRESENTATIVE OF NORMAL**
14 **CONSTRUCTION WITHIN SUNRISE'S SERVICE AREA?**

15 No. This project was an extremely large regional project and not representative of
16 normal construction within Sunrise's service area. As indicated on the Project Design
17 Bulletin (MEC-1), the project spanned across a full square mile of land within the Sunrise
18 service area and included the excavation of two massive retention basins, the installation
19 of several miles of storm drain piping, and associated repaving of numerous streets.

20 **Q. WHAT IS THE CURRENT STATUS OF THE FLOOD CONTROL PROJECT**
21 **AND SUNRISE'S HYDRANT WATER SALES FOR THE FLOOD CONTROL**
22 **PROJECT?**

23 A. By year end 2008, the project was fully complete, the hydrant water account with the
24 contractor was closed, the hydrant meter had been removed, and all hydrant water sales
25 had ceased.

1 **Q. PLEASE DESCRIBE THE HAPPY VALLEY PROJECT?**

2 A. This project provides a vital east-west link for northern Peoria by constructing the
3 missing segment of Happy Valley Road over New River between 91st Avenue and
4 Terramar Boulevard. This new link to Peoria's street network provides additional options
5 for traffic now using Lake Pleasant Parkway, 83rd Avenue, 67th Avenue, and Deer
6 Valley Road. The improvements include three lanes in each direction plus bike lanes,
7 street lighting, landscaping, drainage, and a 16-inch waterline. Attached as Exhibit
8 MEC-R2 is a City of Peoria presentation from a December 17, 2008, Stakeholder
9 Meeting describing the project in detail.

10 **Q. WHAT IS THE CURRENT STATUS OF THE HAPPY VALLEY PROJECT?**

11 A. Construction of Phase I began on January 15, 2008. The City of Peoria held a Grand
12 Opening Celebration for the completion of Phase I of this project on December 20, 2008.
13 The event celebrated the opening of Happy Valley Road from 67th Avenue to 83rd
14 Avenue.

15 The contractor has now moved to Phase II of the project. Phase II will construct Happy
16 Valley Road from 83rd Avenue to a point just east of Lake Pleasant Parkway. This phase
17 includes earthwork, asphalt paving (rubberized), storm drainage, waterline, sewer line,
18 screen walls, curb/gutter, sidewalks, bike lanes, signals, landscaping, etc. This work will
19 continue into the winter of 2009.

20 **Q. WHAT IS THE STATUS OF SUNRISE'S HYDRANT WATER SALES FOR THE**
21 **HAPPY VALLEY PROJECT?**

22 A. As indicated above, Phase I of the project was completed in December of 2008. By year
23 end 2008, the hydrant water account with the contractor was closed, the hydrant meter
24 had been removed and all hydrant water sales had ceased.

1 **Q. WILL SUNRISE BE SELLING HYDRANT WATER FOR PHASE II OF THE**
2 **HAPPY VALLEY PROJECT THAT IS CONTINUING CONSTRUCTION IN**
3 **2009?**

4 A. No. The City of Peoria will supply all construction water for Phase II of the project from
5 their water system.

6 **Q. WAS THE HAPPY VALLEY PROJECT REPRESENTATIVE OF NORMAL**
7 **CONSTRUCTION WITHIN SUNRISE'S SERVICE AREA?**

8 A. No. This project was an extremely large regional project, with a budgeted cost in excess
9 of \$35 million, and is not representative of normal construction within Sunrise's service
10 area. As indicated in the Stakeholder Presentation (MEC-R2), the project includes
11 construction of a three-mile long missing link of Happy Valley Road, which required
12 construction of a bridged crossing of the New River. Finally, an additional mile of
13 Happy Valley Road will be improved and numerous additional improvements will be
14 made.

15 **Q. DOES SUNRISE EXPECT THE CITY OF PEORIA, MARICOPA COUNTY OR**
16 **THE FLOOD CONTROL DISTRICT TO CONSTRUCT ANY PROJECTS OF**
17 **SIMILAR SCOPE WITHIN SUNRISE'S SERVICE AREA IN THE FUTURE?**

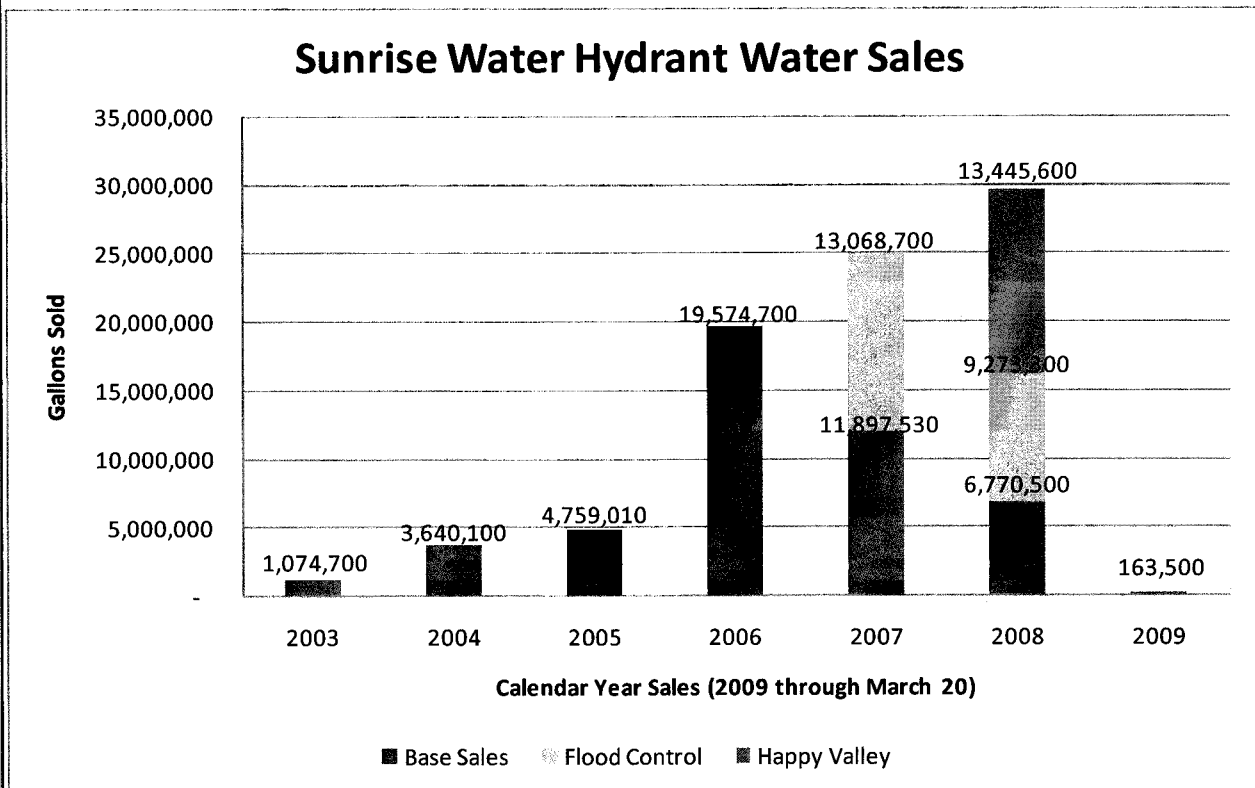
18 A. No. As described above, these projects are large regional projects requiring years of
19 planning that corrected regional flood control and transportation deficiencies within and
20 around the Sunrise service area. To my knowledge, there are no similar projects being
21 planned by any of the agencies, and it is unlikely that any projects of this scope will
22 materialize in the foreseeable future in Sunrise's service area.

Q. COULD YOU SUMMARIZE SUNRISES HYDRANT WATER SALES FOR THE YEARS 2003 THROUGH 2009?

A. Yes, the requested summary is provided in tabular and graphical format below.

Sunrise Water Co. Hydrant Meter Sales - Summary of Gallons Sold							
	2003	2004	2005	2006	2007	2008	2009
Base Sales	1,074,700	3,640,100	4,759,010	19,574,700	11,897,530	6,770,500	163,500
Flood Control					13,068,700	9,273,300	
Happy Valley						13,445,600	
Total Sales	1,074,700	3,640,100	4,759,010	19,574,700	24,966,230	29,489,400	163,500
Percentage of Total Sales							
Flood Control	0.0%	0.0%	0.0%	0.0%	52.3%	31.4%	0.0%
Happy Valley	0.0%	0.0%	0.0%	0.0%	0.0%	45.6%	0.0%

Note: Base Sales are all sales except sales for Flood Control and Happy Valley Projects
Note: 2009 Data is through March 20, 2009



1 **Q. HYDRANT WATER SALES FOR THE FIRST THREE MONTHS OF 2009 SEEM**
2 **TO BE VERY LOW; WHY IS THIS?**

3 A. There are two reasons for the recent low level of hydrant water sales. First, as noted
4 above, both the Flood Control Project and the Happy Valley Project (which constituted
5 the majority of hydrant water sales in 2007 and 2008) are complete, so there are no
6 hydrant water sales for these projects. Second, due to the depressed housing market in
7 the greater Phoenix area, development and construction activity within Sunrise's service
8 area has come to a near complete standstill.

9 Construction activity is so depressed that during the first three months of 2009, Sunrise
10 had only four hydrant water sales accounts during the quarter, delivering a combined total
11 of 163,500 gallons. If the 1st quarter sales rate continues throughout the year, Sunrise
12 will sell well under 1,000,000 gallons of hydrant water during 2009.

13 I am not aware of any new projects under planning or design that would significantly
14 raise the current hydrant water sales rate for Sunrise in 2009. Further, I expect hydrant
15 water sales to be similarly depressed through 2010 and beyond. At the current level of
16 sales, 2009 sales would be well below the 2003 sales level.

17 **Q. WHY IS IT APPROPRIATE TO NORMALIZE HYDRANT SALES BY**
18 **ELIMINATING FLOOD CONTROL SALES?**

19 A. As is indicated above, Sunrise sold a large amount of water for the Flood Control Project
20 during the 2007 test year. The sales for the Flood Control Project represented 52.3% of
21 all hydrant water sales during the test year. Because the sales were so large and due to a
22 large regional project, which is not representative of normal construction within Sunrise's
23 service area, it is appropriate to normalize sales by eliminating the sales for the Flood
24 Control Project from the test year hydrant water sales. Further, the Flood Control Project

1 was complete as of year-end 2008 and will not generate any revenue during 2009 or any
2 portion of the period for which rates will be in effect. Finally, no other large projects are
3 expected within Sunrise's service area which could supply replacement revenue for the
4 Flood Control Project during the period for which rates will be in effect. Without
5 Sunrise's proposed normalization adjustment, test year revenues would not represent
6 revenues on a going-forward basis and would create a mismatch between revenue and
7 ratebase.

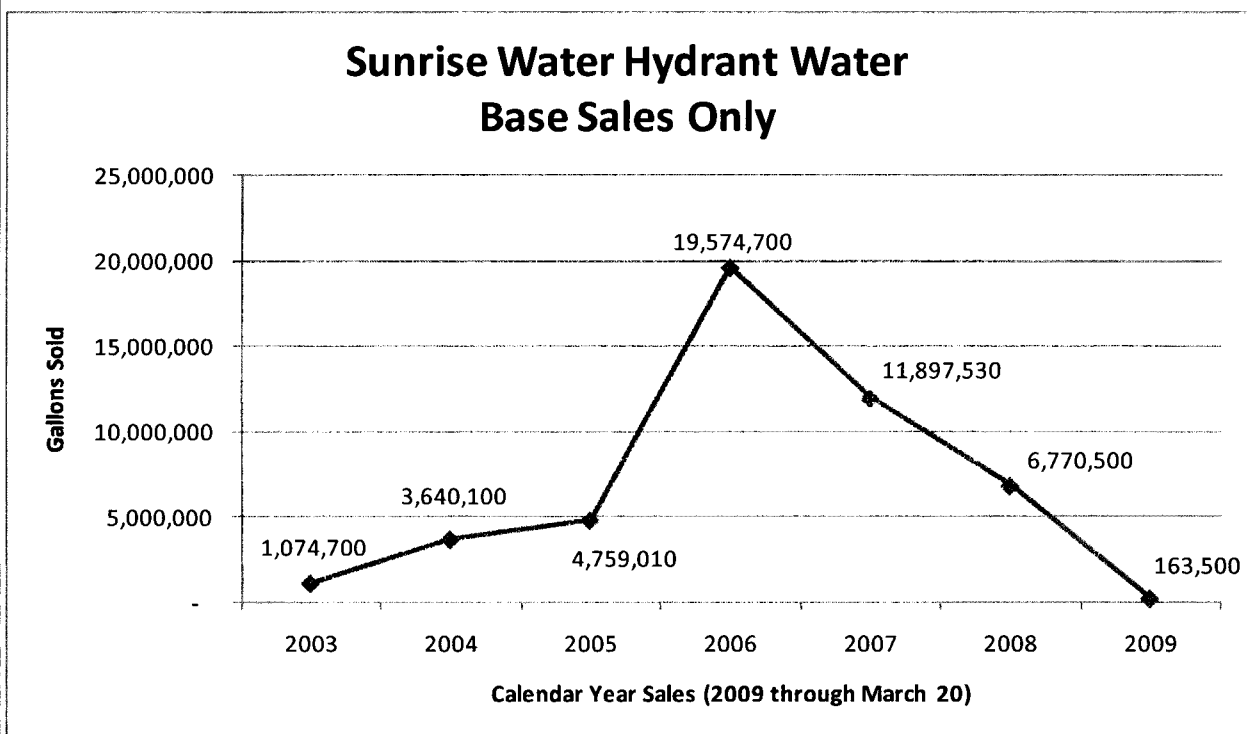
8 **Q. DOES YOUR RECOMMENDED ELIMINATION OF THE FLOOD CONTROL**
9 **SALES TAKE INTO CONSIDERATION THE EFFECT OF THE HAPPY**
10 **VALLEY PROJECT?**

11 A. Yes it does. As noted above, the Happy Valley Project, while generating a large volume
12 of hydrant water sales in 2008, is nothing more than a short-term, nonrecurring regional
13 construction project that provided a one-time benefit to Sunrise's hydrant meter sales.
14 The construction of the Happy Valley Project in 2008 and the associated hydrant water
15 sales by Sunrise, is not in any way indicative of the level of hydrant water sales that
16 Sunrise will experience on a going forward basis.

17 **Q. WHY IT IS APPROPRIATE TO AVERAGES BASE HYDRANT WATER SALES**
18 **OVER THE FIVE-YEAR PERIOD 2003 THROUGH 2007?**

19 A. As seen in the graph below, Sunrise's base hydrant water sales peaked dramatically in
20 2006. Beginning in the 2007 test year and continuing through 2008 and 2009, hydrant
21 water sales have steadily declined and are projected to be at or below 2003 levels in
22 2009. This pattern of hydrant water sales is directly correlated with the Phoenix area
23 housing boom and bust cycle. This graph clearly demonstrates that the 2007 test year
24 sales of 11,897,530 gallons are significantly above a normal level of hydrant sales for
25 Sunrise and represent an unsustainable level of hydrant water sales. Hydrant water sales

1 peaked in 2006 and began rapidly trending back to historic levels during the 2007 test
2 year. A five-year average is a reasonable method to normalize hydrant water sales to
3 represent expected sales on a going forward basis. Without Sunrise's proposed
4 normalization adjustment, test year revenues would not represent revenues on a going-
5 forward basis and would create a mismatch between revenue and ratebase.



6 **Q. STAFF STATES THAT INCLUDING THREE YEARS OF VERY LOW WATER**
7 **SALES (2003-2005) RESULTS IN AN UNDERSTATEMENT OF NORMALIZED**
8 **HYDRANT SALES. DO YOU AGREE?**

9 **A.** No. As shown above base hydrant water sales peaked sharply in 2006, began a steady
10 decline in 2007, and in 2009 are trending below 2003 levels. Contrary to Staff's
11 assertion, inclusion of the 2003-2005 sales is necessary to normalize Sunrise's hydrant
12 water sales for Sunrise. Given the extreme collapse of the development and housing
13 market, it is likely that Sunrise's going-forward hydrant water sales will be well below

1 the five-year average level of sales. Failure to do a five-year average that includes the
2 lower period of sales would result in normalized hydrant water sales much greater than
3 actual hydrant water sales for the years that the rates will be in effect.

4 **V OUTSIDE SERVICES**

5 **Q. DO YOU AGREE WITH STAFF'S ADJUSTMENT NO. 6 PERTAINING TO**
6 **OUTSIDE SERVICES?**

7 A. No, I do not. Staff asserts that the services provided by SRW Consulting are for lobbying
8 activities that are not directly beneficial to ratepayers and proposes to remove the cost
9 from Sunrise's rates. I disagree with Staff's assertion.

10 **Q. DO THE SERVICES PROVIDED BY SRW CONSULTING BENEFIT SUNRISE'S**
11 **CUSTOMERS?**

12 A. SRW Consulting assists Sunrise with regulatory compliance by providing regulatory and
13 legislative monitoring and reporting services. In addition, SRW assists Sunrise to
14 develop communication strategies and manage issues encountered at State regulatory
15 agencies including the Commission. These services help ensure Sunrise is aware of new
16 regulatory and legal requirements and assist Sunrise in maintaining productive
17 relationships with the numerous agencies that oversee its operation. Sunrise procures
18 these services because keeping current with new regulatory and legal requirements and
19 maintaining good relationships with regulatory agencies is a vital component of
20 providing water service in a heavily regulated business environment. Accordingly, I
21 believe the services provided by SRW Consulting do directly benefit Sunrise's
22 customers.

1 **Q. DO YOU CONSIDER THE SERVICES PROVIDED BY SRW CONSULTING**
2 **LOBBYING?**

3 A. SRW Consulting rarely provides services for Sunrise that I would consider lobbying. In
4 Arizona, lobbying is generally defined as attempting to influence the passage or defeat of
5 any legislation by directly communicating with any legislator or attempting to influence a
6 formal rule making proceeding by directly communicating with any state officer or
7 employee. As described above, the vast majority of the services provided by SRW
8 Consulting are not lobbying.

9 **Q. IS SUNRISE WILLING TO COMPROMISE IN ORDER TO ACCOMMODATE**
10 **STAFF'S POSITION ON THIS ISSUE?**

11 A. Yes. In recognition that SRW Consulting occasionally engages in lobbying activities for
12 Sunrise, Sunrise has adjusted its rebuttal case to include 50% of the cost of the services
13 provided by SRW Consulting.

14 **VI BARN, WORKSHOP, STORAGE, FIELD OFFICE AND YARD RENT**

15 **Q. HAVE YOU REVIEWED STAFF'S PROPOSED OPERATING INCOME**
16 **ADJUSTMENTS NO. 8 AND NO. 9 REGARDING LEASE COSTS FOR BARN,**
17 **WORKSHOP, STORAGE, FIELD OFFICE AND YARD RENTAL.**

18 A. Yes I have. Staff is recommending disallowance of a total of \$37,595 in lease expense
19 for these facilities. Specifically, OI-8 disallowed the Barn, Workshop and Storage
20 expenses of \$12,487.00 and Staff Report OI-9 disallowed the field office and yard rent
21 expenses of \$25,108.00.

22 **Q. DO YOU AGREE WITH STAFF'S ADJUSTMENTS?**

23 A. No.

1 **Q. WHY DOES SUNRISE LEASE THE BARN, WORKSHOP, STORAGE AND**
2 **OFFICE FACILITES FROM MR. CAMPBELL?**

3 A. The supplies, material, tools, and equipment stored at these locations include brass
4 fittings and copper tubing, hand tools and power equipment and other miscellaneous
5 water facilities piping and fittings. These types of items are highly susceptible to theft
6 and vandalism. The location has a single source of ingress and egress and is a fenced and
7 occupied, large acreage, ranch-style, residential property. These features provide
8 excellent security and protect the items from theft and damage. In addition, Sunrise
9 records are stored in secure containers on the property. The workshop in the barn is used
10 by field crews to make repairs and to perform other equipment functions, and the field
11 office is used for field crew meetings and staging.

12 **Q. STAFF ASSERTS THAT THAT THERE IS NO EVIDENCE THAT SUNRISE**
13 **UTILIZES THE WORKSHOP OR THAT IT IS NECESSARY FOR THE**
14 **PROVISION OF SERVICE. DO YOU AGREE?**

15 A. No, the workshop is used by our field personnel on a regular basis and contained water
16 company materials and parts at the time of Staff's visit. Small parts and tools are stored
17 within the workshop to work on such items as fittings on hydrant meters, chlorine pumps
18 and motors, small booster pumps and motors, and other water distribution and pumping
19 equipment. Additionally, Sunrise personnel perform minor maintenance on the vehicles
20 at the workshop/barn location, such as oil changes and washing the vehicles.

21 **Q. WHERE HAS STAFF RECOMMENDED STORING THESE SUPPLIES**
22 **PERFORMING THESE FUNCTIONS?**

23 A. Staff recommended using Sunrise Water Co. Well No. 7 for the storage of materials and
24 equipment. Staff recommended using an off-site storage facility for records. Staff
25 indicated that they did not find any evidence the workshop was used by Sunrise and did

1 not recommend an alternative. Finally, Staff indicated that there was an office in
2 Sunrise's corporate office that could be used for crew meetings and staging.

3 **Q. IS STAFF'S RECOMMENDATION TO USE WELL SITE NO. 7 FEASIBLE?**

4 A. In order to secure the supplies, material and tools at Well Site No. 7, Sunrise would have
5 to construct a new, adequately-sized, building. We estimate the construction cost of a
6 structure of adequate size to replace the existing facilities would be at least \$150,000.00,
7 including design and permitting. There would also be significant monthly utility bills for
8 electricity, sewer, garbage, and security services. Contrary to Staff's assertion that use of
9 Well Site No. 7 would be at no cost to ratepayers, the resulting revenue requirement and
10 the associated monthly operating costs associated with a building would be significant.

11 However, cost is not the biggest obstacle to overcome. Well No. 7 is located within
12 unincorporated Maricopa County and is zoned R43, which is a minimum one-acre
13 residential lot. Maricopa County R43 zoning allows for water wells and booster stations
14 to be installed, but the Maricopa County R43 zoning does not permit building any type of
15 office or storage facility on the site.

16 Construction of a storage facility will require either a Special Use Permit or rezoning of
17 the site. Under County zoning regulations, a Special Use Permit is only allowed if the
18 County considers a storage facility as being attendant to the primary use of the site as a
19 booster station. It is unlikely that the county would consider a material and equipment
20 storage facility attendant to the use of the site as a booster station. Rezoning the site is
21 likely to prove more problematic. Zoning applications in the Sunrise service area are
22 routinely challenged to protect the one-acre home sites from commercial traffic and
23 disruption, making the probability of rezoning the site low.

1 Considering the cost and time required to apply for a Special Use Permit or rezone the
2 site and the low likelihood of success, the use of the Well No. 7 site for storage is
3 speculative at best.

4 **Q. IS THERE AN OFFICE IN SUNRISE'S CORPORATE OFFICE AVAILABLE**
5 **FOR FIELD PERSONNEL USE?**

6 A. No there is not. The office referenced by Staff is Sunrise's customer service office
7 occupied by Sharon Chambers on a full time basis. Ms. Chambers conducts billing
8 activities, answers customer calls, meets with customers, and performs accounts payable
9 functions from the office. Sunrise's Operations Supervisor, Trent Schimmel, does have a
10 desk in the office for his personal use when he visits the office to coordinate with Ms.
11 Chambers on customer service matters, such as receiving and closing customer generated
12 service orders and delivering meter readings. The office is not adequately sized or
13 available to stage field crews or accommodate other field crew needs.

14 **Q. HAS THE COMMISSION ADDRESSED THESE ISSUES PREVIOUSLY?**

15 A. In the recent West End Water Co. ("West End") rate case, Docket No. W-01157A-06-
16 0004, Decision No. 68925 dated August 29, 2006, the Commission included expenses of
17 \$12,286.00 for rental expense for these facilities. Using the standard 80% / 20% split of
18 costs between Sunrise and West End, this equates to an expense of \$49,144.00 for
19 Sunrise.

20 **Q. WHAT IS SUNRISES CURRENT POSITION REGARDING LEASE COSTS FOR**
21 **WORKSHOP, STORAGE AND FIELD OFFICE SPACE ADDRESSED BY**
22 **STAFF'S OPERATING INCOME ADJUSTMENTS NO. 8 AND NO. 9?**

23 A. Sunrise believes Staff's proposed adjustments should be rejected. The facilities in
24 question are used and useful to Sunrise and are used in the provision of service to

1 Sunrise's customers. The Commission has recently included these expenses in the rates
2 of Sunrise's sister company, West End, and should likewise allow them for Sunrise.
3 Staff's assertion that Well Site No. 7 could be used as a no-cost option should be rejected.

4 **VII INCOME TAX EXPENSE**

5 **Q. HAS STAFF RECOMMENDED RECOVERY OF INCOME TAX EXPENSE?**

6 A. No. Staff recommends no income expense for Sunrise since Sunrise is a subchapter S
7 corporation exempt from corporate income tax.

8 **Q. DOES SUNRISE AGREE WITH STAFF'S RECOMMENDATION?**

9 A. No, we do not.

10 **Q. WHAT IS SUNRISES POSITION ON INCOME TAX?**

11 A. Mr. Jones provides the details of our position in his testimony. In summary, while
12 Sunrise may be technically exempt from corporate income tax, the business enterprise is
13 not exempt from income tax. Each year Sunrise prepares an income tax return and Mr.
14 Campbell includes the taxable income from Sunrise on his personal tax return and pays
15 the income tax resulting from Sunrise's net income. This is a real cost and is
16 fundamentally no different than the numerous C corporations whose parent companies
17 include their income in the parent's consolidated tax return. The Commission has
18 included income tax expense in Sunrise's and other similar providers' previous rate cases
19 and should include income tax expense in the current instance.

20 **Q. IF STAFF'S RECOMMENDATION IS ADOPTED WHAT IMPACT WILL THIS**
21 **HAVE ON SUNRISE?**

22 A. Sunrises' revenues will be reduced by the amount of the income tax expense plus the
23 resulting savings in property tax. This will, in turn, reduce the after tax net income of
24 Sunrise by \$30,000 to \$40,000 depending upon resolution of other contested issues in the

1 case. Mr. Jones calculates that this is equivalent of reducing the recommended return on
2 equity from 10.0% to 7.02%.

3 **Q. HOW WILL THIS AFFECT SUNRISE ON A GOING-FORWARD BASIS?**

4 A. The loss of revenue will translate directly into a decrease in the availability of funds for
5 Sunrise to continue making needed improvements to its system.

6 **Q. WHAT IS SUNRISE'S RECORD OF MAKING IMPROVEMENTS TO THE**
7 **SUNRISE SYSTEM?**

8 A. Unlike many small water companies in Arizona, Sunrise has consistently invested in its
9 water system. The investment has taken the form of direct investment in land, plant and
10 facilities and through line extension agreement refunds that exceed the Commission
11 minimum requirements. This record of investment is evidenced by Sunrise's nearly \$1.2
12 million dollars in rate base that stands in stark contrast to many other similarly situated
13 water companies that have small or even negative rate base. Because of this investment,
14 Sunrise is a healthy water utility that provides a high level of service to its customers.

15 The following are examples of recently completed improvement projects funded by
16 Sunrise.

- 17 • Replacement of well pump at Well No. 3
- 18 • Replacement of well pump at Well No. 5
- 19 • Installation of Well No. 6
- 20 • Installation of ½-mile long transmission main from Well No. 6 to Well No. 4
- 21 Booster Station
- 22 • Expansion of Well No. 4 Booster Station
- 23 • Installation of Well No. 7 and the Well No. 7 Booster Station (Arsenic
- 24 Remediation Project)

- 1 • Installation of 8-inch water main on 91st Avenue from Pinnacle Peak Road to
- 2 Monte Lindo
- 3 • Installation of 8-inch water main on 83rd Avenue from Avendia Del Sol to
- 4 Mariposa Grande

5 **Q. PLEASE DESCRIBE YOUR PLANS FOR FUTURE IMPROVEMENTS TO THE**
6 **SUNRISE SYSTEM?**

7 A. Sunrise has plans to drill and equip a new well, construct a new well transmission main,
8 construct an additional water storage tank at the Well No. 4 site, complete several water
9 main improvement projects, and other related pumping and distribution projects.

10 **Q. HISTORICALLY, FROM WHERE HAVE THE FUNDS FOR THESE**
11 **IMPROVEMENTS COME?**

12 A. There have been two sources of funds, retained earnings and equity infusions from Mr.
13 Campbell.

14 **Q. HOW DO YOU PLAN TO ACQUIRE FUNDS FOR CAPITAL EXPENDITURES**
15 **IN THE FUTURE?**

16 A. Sunrise will continue to use retained earnings and will seek equity infusions from Mr.
17 Campbell when appropriate. In addition, Sunrise plans to add debt to its capital structure
18 through the use of WIFA or other available loan funds.

19 **Q. EARLIER YOU MENTIONED THAT THE LOSS OF REVENUE DUE TO**
20 **DISALLOWANCE OF INCOME TAX WILL RESULT IN A DECREASE IN THE**
21 **AVAILABILITY OF FUNDS. COULD YOU ELABORATE ON THAT**
22 **CONCLUSION?**

23 A. The loss of revenue will directly impact availability of funds in the following three ways.

- 1 • Retained earnings available for capital improvements will be reduced dollar for dollar
- 2 by the amount of the disallowed of income tax expense.
- 3 • The reduction in revenue will reduce cash flow thereby reducing debt coverage ratios,
- 4 reducing the availability of debt financing from WIFA or other debt providers.
- 5 • Since income taxes must be paid on the income generated by Sunrise, Mr. Campbell
- 6 will experience a significant reduction on real return on equity for Sunrise. As with
- 7 any business enterprise, a diminished return on equity for Sunrise will negatively
- 8 impact its ability to raise additional capital from its shareholder, Mr. Campbell.

9 **Q. WHAT IS YOUR OVERALL ASSESMENT OF STAFF'S PROPOSED**
10 **DISALLOWANCE OF INCOME TAX EXPENSE FOR SUNRISE?**

11 A. The proposed disallowance of income tax is not appropriate for Sunrise. The
12 Commission has authorized income tax expense in the past for Sunrise, and Sunrise has
13 used that money to make capital investments for the benefit of its customers. The result
14 is a healthy utility that provides excellent service to its customers. Denial of income tax
15 expense at this point, while not the intent of Staff, nevertheless would weaken Sunrise's
16 financial condition. The reduced cash flow would reduce Sunrise's ability to continue its
17 record of making prudent investments into maintaining and growing its water system.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 A. Yes.

EXHIBIT

MEC – R1



83rd Avenue/Pinnacle Peak Road Drainage Improvement Project

October 2005

PROJECT DESIGN BULLETIN

The Flood Control District of Maricopa County (District), in partnership with the City of Peoria and the Maricopa County Department of Transportation, is designing drainage improvements for the vicinity of 83rd Avenue/Pinnacle Peak Road. The purpose of this bulletin is to familiarize the public with the project's features and announce an upcoming public information meeting that will be held on Wednesday, November 2, from 6:00 to 7:30 p.m., at the Sunrise Mountain High School North Campus (see back page for further details).

Why is this project needed?

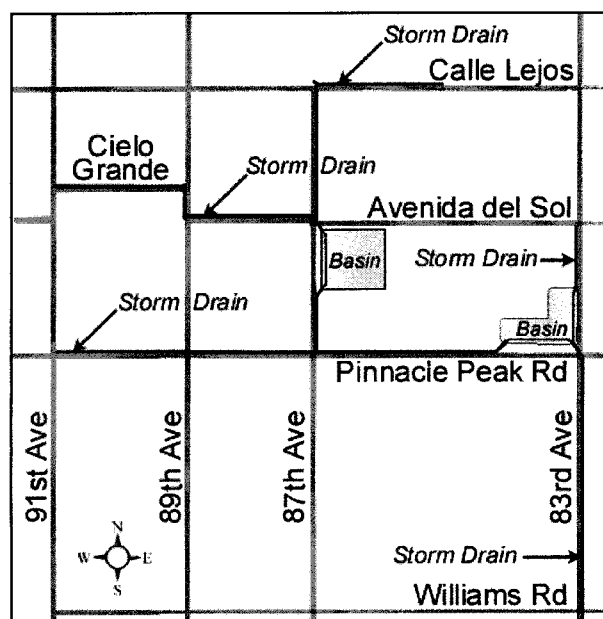
In the area between 83rd and 91st Avenues, storm water runoff drains to the south from the Sunrise Mountains towards Deer Valley Road. However, many of the streets in this area lack a storm drain system. Piecemeal growth has resulted in development without adequate flood control and drainage infrastructure. Consequently, some local properties and area streets have experienced repeated flooding. Over the years, the flooding has caused property damage, erosion, and sedimentation problems, such as sand "islands" forming in roadways.

The project will be designed to mitigate storm water flooding in the area from Calle Lejos to Pinnacle Peak Road between 83rd and 91st Avenues. Storm runoff in this area will be collected and conveyed by drainage pipes to detention basins. Without these improvements, storm water would be expected to continue to cause flooding of the streets and neighborhoods in the area.

What will be built?

The proposed improvements include the construction of detention basins at the northwest corner of 83rd Avenue and Pinnacle Peak Road

VICINITY MAP



and at the southeast corner of Avenida del Sol and 87th Avenue. New storm drains along Calle Lejos, Cielo Grande, Avenida del Sol, Pinnacle Peak Road, 83rd Avenue, 87th Avenue, and 89th Avenue will collect storm water and convey it to the basins via a system of pipes. The collected water will then be discharged at a controlled rate into a storm drain that will direct the water south under 83rd Avenue. The new system ultimately drains into an existing open channel on the east side of 83rd Avenue south of Williams Road.

What will it look like?

The District's aesthetics and open space goal is to enhance the year-round value of its facilities by incorporating features that will preserve the natural landscape, protect and enhance local community character,



improve the aesthetic value of its properties, and provide opportunities for recreation activities. Thus, detention basins are often designed to provide both flood control and recreational uses for adjacent residents. At this time, the District anticipates that the 87th Avenue basin will be designed to accommodate recreational uses. Due to its depth and steep sides, the Pinnacle Peak basin will not be accessible for recreational use.

A Project Aesthetics Advisory Committee (PAAC) that includes local neighborhood residents has been formed to evaluate multi-use opportunities and aesthetics issues specific to the area. The PAAC will meet several times during the course of the design process to review concepts and provide input to the project team.

What has been done so far?

The District began preliminary investigations for the proposed improvements in 2004. This pre-design phase consisted of evaluating possible sites, layouts, and configurations for detention basins, identifying multi-use opportunities and aesthetic issues, and preparing the concept and site development plans. The results of the preliminary phase were presented at a public meeting on November 8, 2004.

Since that time, the District has improved the drainage system's design and expanded the project to provide flood mitigation for a larger area, reaching as far west as 91st Avenue. This was done to provide adequate drainage controls for more residences and properties in the area that have experienced flooding in the past. The changes that have come about in the design are highlighted below (inset). Both the new and previous concepts will be available for viewing at the November 2 public meeting.

How can you participate?

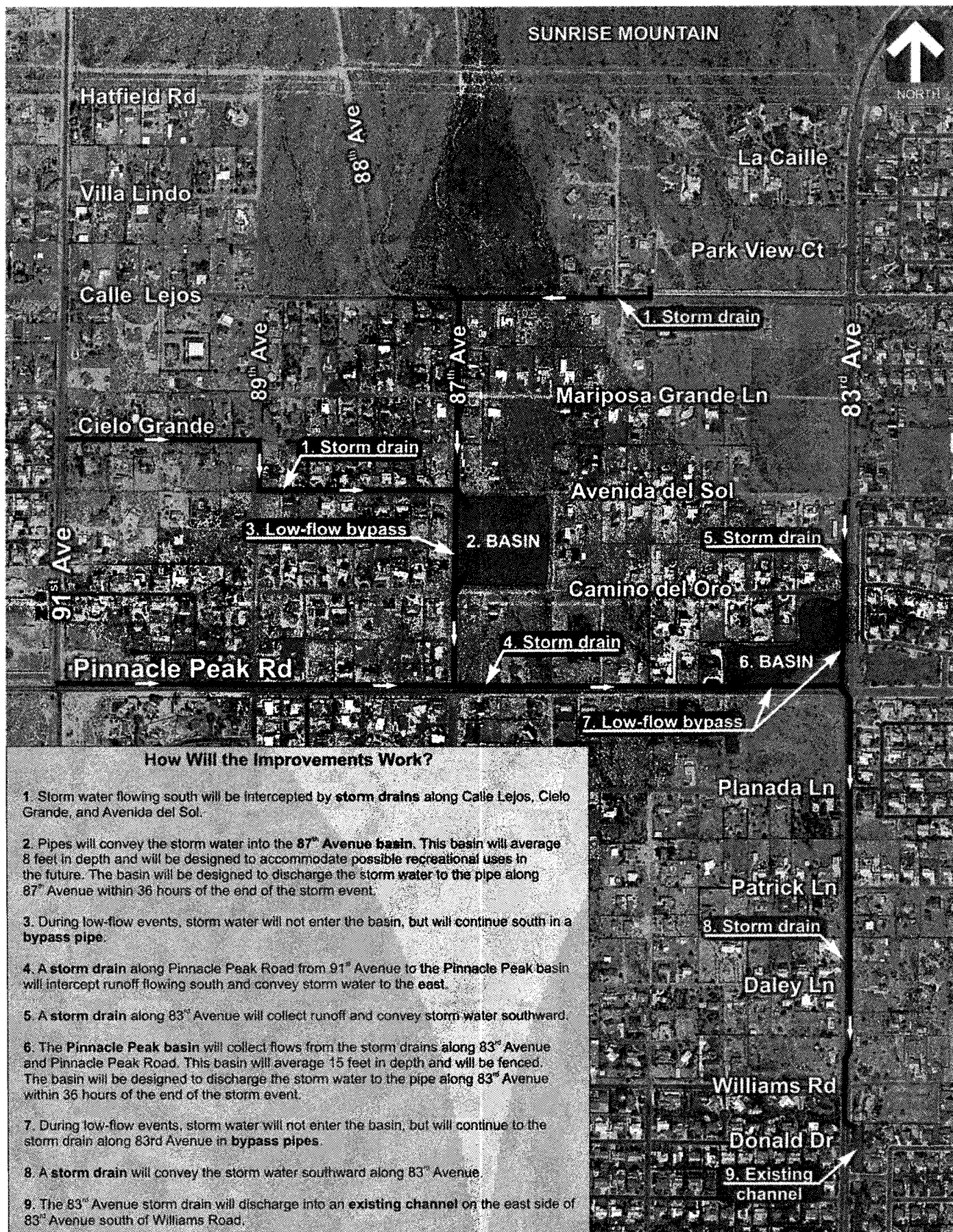
The District is committed to providing a clear understanding of the proposed improvements to the public and to listening to your concerns and suggestions. The upcoming public information meeting will continue the dialogue between the District and the public about the 83rd Avenue/ Pinnacle Peak Road Drainage Improvement Project.

Following the November 2 public meeting, the District will prepare the final design and construction documents, giving full consideration to public input on the preliminary project concepts. A follow-up bulletin and public information meeting are planned for early 2006.

How is the new design different than the original concept?

The project team has investigated several modifications of the previous concept to improve the effectiveness of and increase the area protected by the proposed drainage improvements. The changes include the following:

- The new concept for this project provides flood control protection for a larger area, extending westward to 91st Avenue. With the new concept, storm drains will extend west to 91st Avenue along Cielo Grande, Avenida del Sol, and Pinnacle Peak Road. The previous storm drain concept extended west to 89th Avenue.
- The detention basin originally located north of Calle Lejos east of 87th Avenue has been eliminated and replaced with a basin at the southeast corner of Avenida del Sol and 87th Avenue. The new site has a larger area available for the drainage improvements, increasing its potential detention capacity, and provides a better opportunity for other uses.
- Water collected along Calle Lejos will be transmitted in pipes south along 87th Avenue. Originally, this water was to be conveyed east to the Pinnacle Peak basin in a series of pipes and open channels. However, detailed studies and hydrologic analysis show that the system will function more efficiently with the new configuration.



Need more information? Contact:

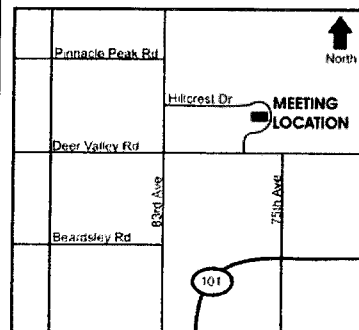
- **Emili Kolevski**, Project Manager
Flood Control District of Maricopa County
2801 West Durango Street
Phoenix, AZ 85009
Phone: 602-506-4486; fax: 602-506-8561
Email: emk@mail.maricopa.gov
- **Burton Charron**, Senior Civil Engineer
City of Peoria Engineering Division
8401 West Monroe Street
Peoria, AZ 85345
Phone: 623-773-7212; fax: 623-773-7211
Email: burtonc@peoriaaz.com
- **Pat Fyie**, Project Manager
Jacobs Civil Inc.
875 West Elliot Road, Suite 201
Tempe, AZ 85284
Phone: 480-763-8616; fax: 480-763-8601
Email: pat.fyie@jacobs.com

Project information is also available on the District's web site: www.fcd.maricopa.gov.

You're invited!

Public Information Meeting

Wed., Nov. 2, 2005, 6:00 to 7:30 p.m.
North Campus of Sunrise Mountain
High School
7877 W. Hillcrest Drive



Please join us
at an informa-
tional meeting
about this
project.

A brief pres-
entation will be
given at 6:15
followed by an
open house.

Jacobs Civil Inc.
Attn: Laura Gerbis
875 West Elliot Road, Suite 201
Tempe, AZ 85284



Inside this Newsletter:

- ☐ Public meeting notice
- ☐ Important news about the drainage improvement project near 83rd Ave./ Pinnacle Peak Rd.
- ☐ Detention basin concepts

EXHIBIT

MEC – R2

***Happy Valley Road
67th Ave to Lake Pleasant Parkway
Project Update***

***Property Stakeholder Meeting
December 17, 2008***

***Chris Kmetty, PE
Senior Civil Engineer
City of Peoria***

Agenda

- Project History & Description
- Status
- Stakeholder Items of Interest
- Added Elements to Project
- Schedule
- Questions

Project History

- March 1996 Council Adopts Happy Valley as Major Arterial into Master Plan
- This project is identified in Proposition 400 and is in the Regional Transportation Plan
- July 2003 Design Concept Report Completed
 - Included three public meetings (2002 & 2003)
- 2002 Final Design Started
- July 2006 Design Completed

Project History (Cont.)

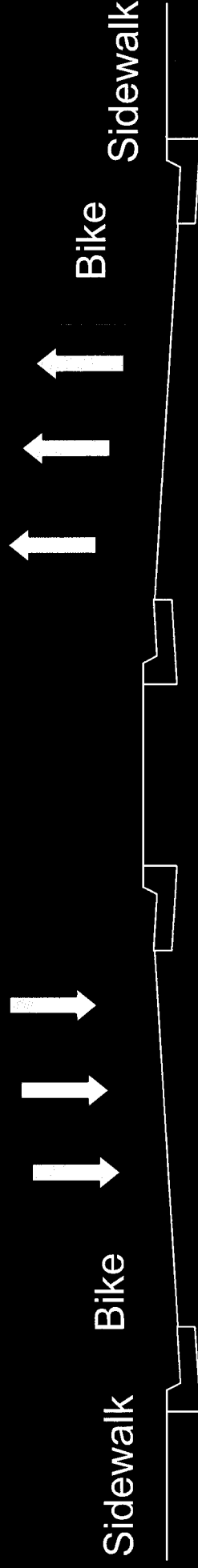
- July 2007: Contractor Hired (Ames)
 - Construction Manager Hired (Jacobs)
- July 2007-December 2008:
Preconstruction Preparation and Added Design Elements
- Coordination with Developers, Utility Companies and Stakeholders

Project Schedule

- September 2007 (Met Schedule)
 - Finish Design: Terramar to Lake Pleasant
 - Start Design: 67th to Terramar
- January 2008 (Met Schedule)
 - Start Construction: Terramar to 91st Ave
- Summer 2008 (Met Schedule)
 - Start Construction: Terramar to 67th Ave
 - Start Construction: 83rd Ave Widening
- Winter 2008 (On Schedule)
 - Open to Traffic: 67th to 83rd Ave
 - Start Construction: 91st Ave to LPP
- Fall 2009 (On Schedule)
 - Open to Traffic: 83rd Ave to Lake Pleasant

Lane Configuration

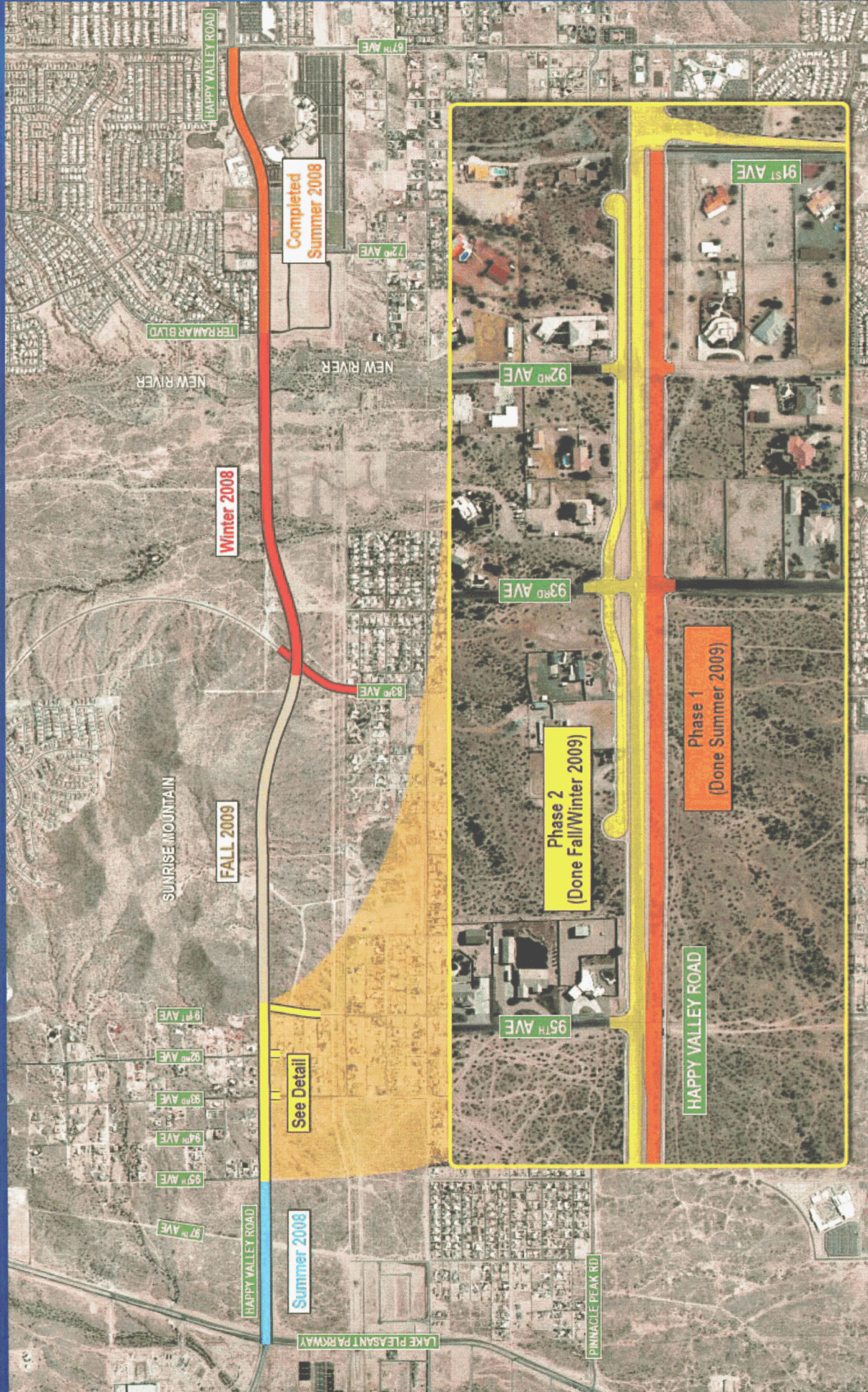
North



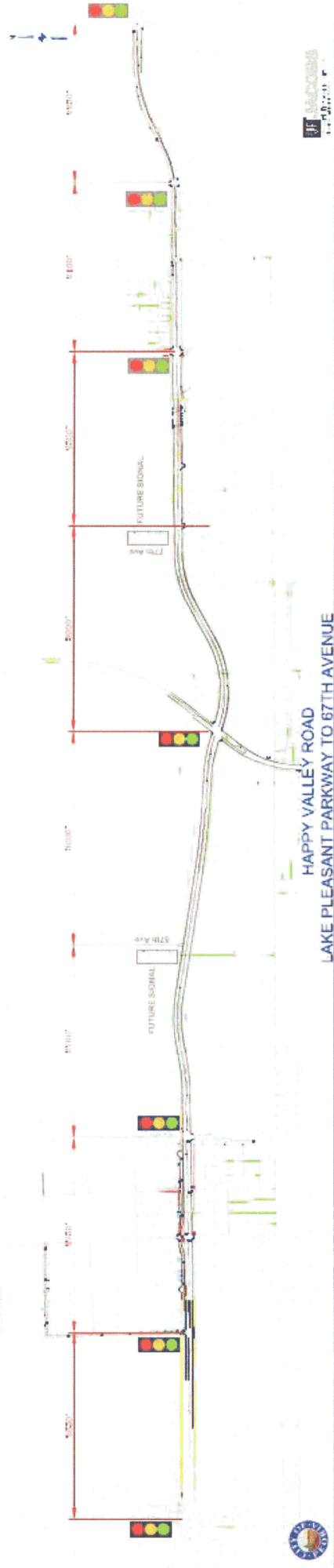
Waterline

Lake Pleasant Parkway to 67th Ave

Project Overview



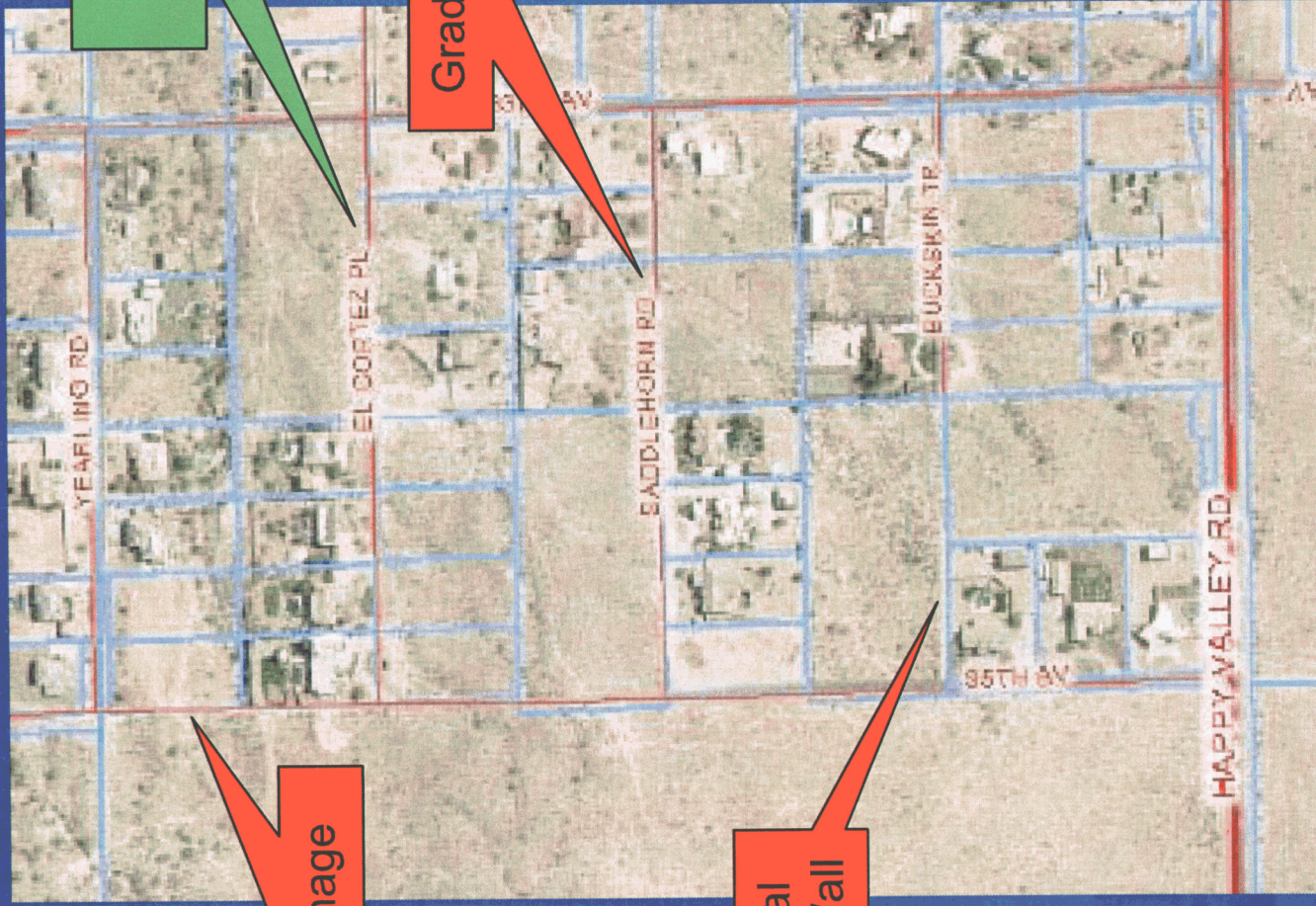
Signal Spacing: LPP to 67th Ave



Added Design Elements (91st Ave to Lake Pleasant)

- South Half Roadway and all improvements (landscape, sidewalk, sound walls)
- Dual Left Turns at Lake Pleasant Prkwy
- 95th Ave Signal
 - 95th Ave Improvements
 - El Cortez Improvements
- Rubberized Asphalt
- Sewer Line (92nd Ave to 97th Ave)
- Undergrounding Electric Lines

95th Ave to 93rd Ave Options



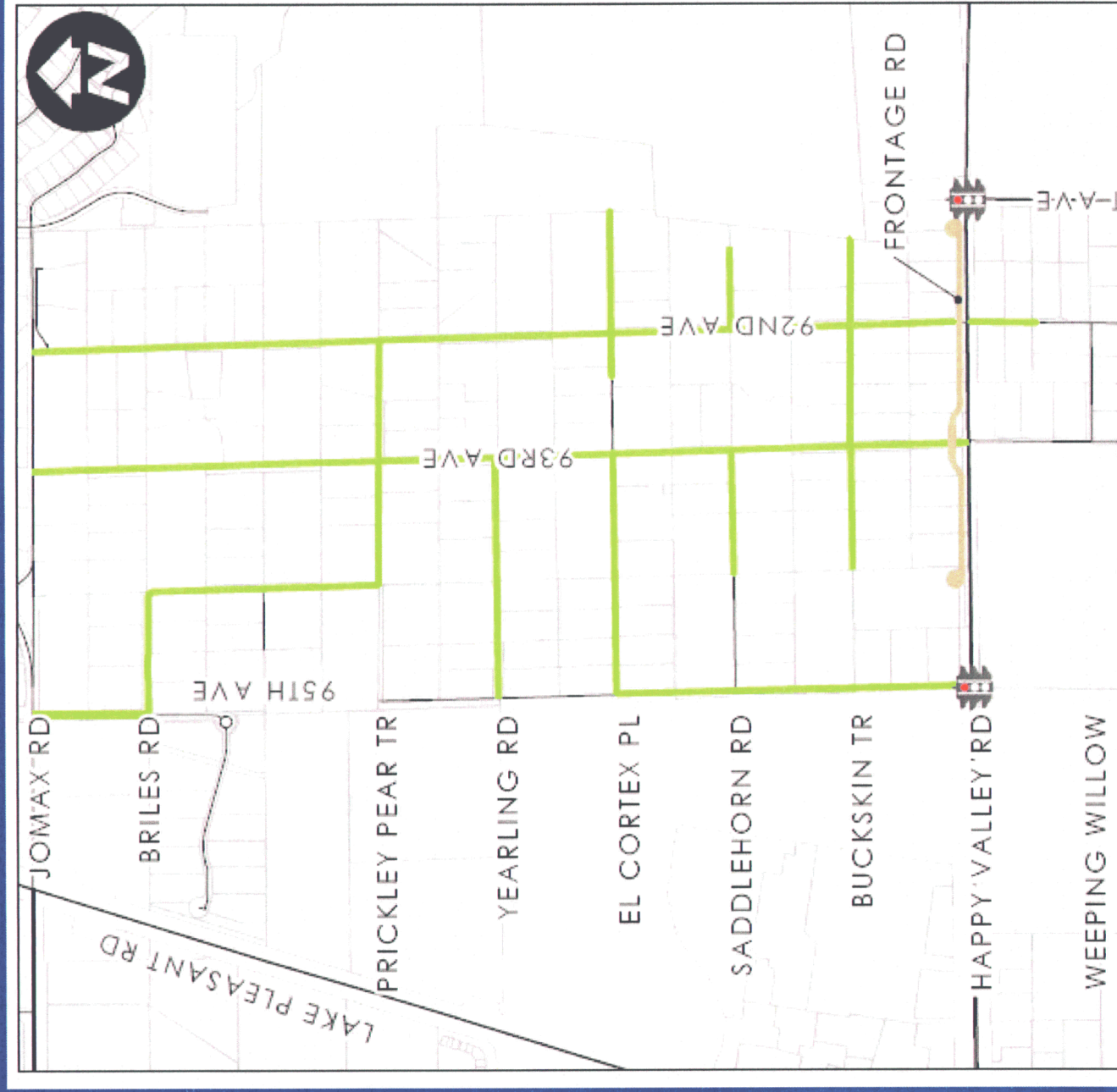
Repave Existing
Road

Grade New Road

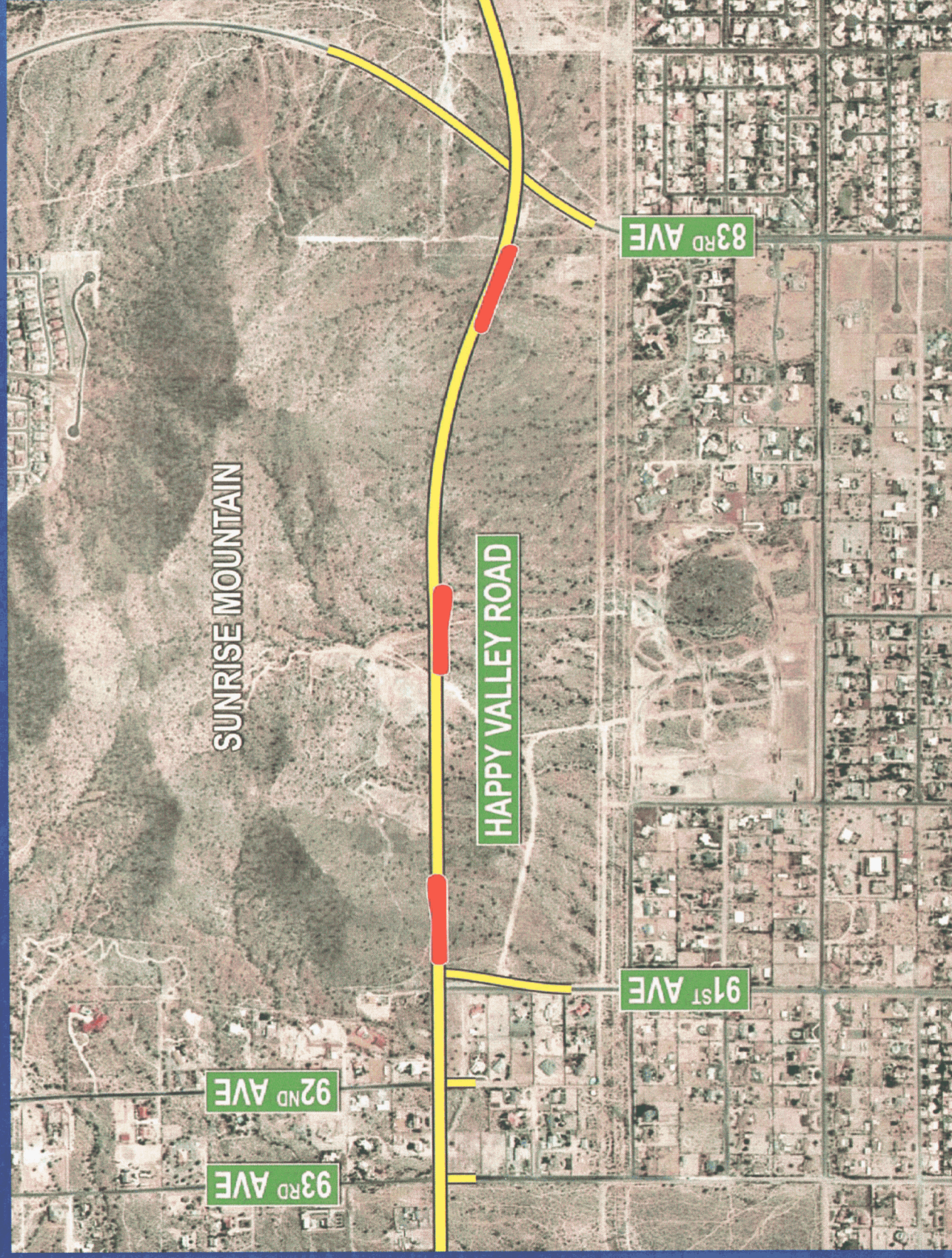
Major Drainage

Need Additional
R/W to Avoid Wall

Local Street Access to Happy Valley



Potential Additional Earthwork Blasting Areas



Waterline Connection (Only Along Happy Valley)

- Residential Expansion Fees (Current) \$4,219
- 3 Copies of Plan Showing all tap info
- 2 Days to issue Permit
- City to set meter and inspect pipe and backflow preventer (Water Meter Department)
- Contact Jeff Schumaker 623-773-7225 for more info

Sewer Connection (92nd to 97th Ave Only)

- Residential Expansion Fees (Current) \$1,923
- 3 Copies of Plan Showing all tap info
- 2 Days to issue Permit
- Contact Jeff Schumaker 623-773-7225 for more info

Driveway Access

- Temporary Construction Easements
- Please check locations on roll plot
- Contractor will stake all driveways prior to construction
- Access during construction

Overhead to Underground Power Conversions

- Please discuss with APS and City after presentation (3 locations only)

Temporary Construction Easement

- Needed for driveway connections
- Happy Valley: Letters Sent
- 95th Ave: Letters Sent
- El Cortez: Sending Letters Jan 2009
- More Information:

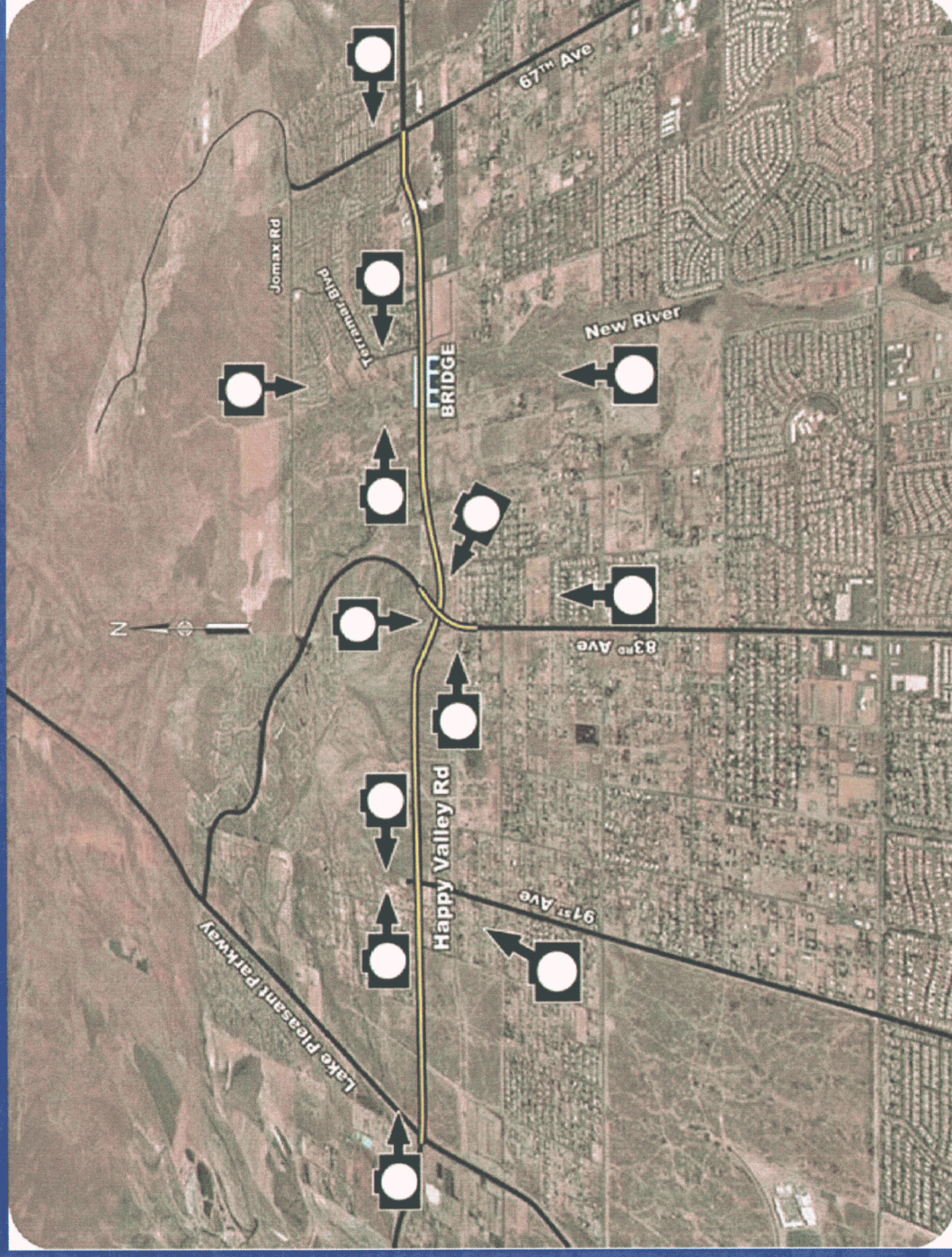
Angela Manuel Peoria Property Agent
623-773-7728

91st to Lake Pleasant Parkway

- Frontage Road Construction
- Signal at 91st Ave
- Signal at 95th Ave
- 95th Ave Improvements
- El Cortez Improvements
- Sound Wall Construction (North & South)
- Water Line Construction
- Sewer Line Construction
- Repayment Zone Information
- Earthwork Blasting

Website with Time-Lapse Photos

www.peoriaaz.gov/BuildingPeoria



Questions?

Chris Kmetty, P.E. City of Peoria Engineering

**chris.kmetty@peoriaaz.gov
623-773-7247**

**24 Hour Construction Hotline
602-264-6416**

www.peoriaaz.gov/buildingpeoria

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
BASED THEREON FOR UTILITY SERVICE

DOCKET NO. W-02069A-08-0406

**REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
SUNRISE WATER COMPANY
MARCH 27, 2009**

**REBUTTAL TESTIMONY
OF
RAY L. JONES
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SUNRISE WATER COMPANY
MARCH 27, 2009**

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EXECUTIVE SUMMARY

Ray L. Jones testifies as follows:

Mr. Jones sponsors Sunrise's rebuttal revenue requirement.

Mr. Jones accepts a number of Staff income statement adjustments.

Mr. Jones sponsors rate base and operating income and details Sunrise's rebuttal positing pertaining to remaining points of disagreement with Staff.

- Sunrise proposes to make a pro-forma adjustment for one-half of a developer Advance refund that had accrued and become payable as of the end of the test year. The refund was based on six months of test-year revenue and six months of post-test-year revenue.
- As discussed in detail by Mr. Collins, test-year hydrant-water sales should be normalized.
- As discussed in detail by Mr. Collins, Sunrise proposes to remove 50% of the \$27,000 in outside services proposed to be removed by Staff.
- As discussed in detail by Mr. Collins, it is appropriate to include \$37,595 in lease expense for workshop, storage and field office space facilities. Staff's adjustment should be rejected.
- Only some of Staff's property-tax adjustments are appropriate.
- As discussed in detail by Mr. Collins, it is appropriate to recognize income-tax expense. Further, this is consistent with the Commission's past allowance of this expense for Sunrise and for other S corporations and LLCs. Finally, disallowing income-tax expense would effectively reduce Sunrise's authorized return from 10% to 7.02%.
- Staff's proposal to increase base charges to yield higher revenues from monthly minimum charges is acceptable. However, it would be unwise to decrease the break-over point between the second and third tier from 18,000-gallons to 13,000-gallons.

Mr. Jones sponsors attached Exhibit RLJ-R1 containing the following updated schedules referenced in his rebuttal testimony.

- Schedule A-1 Rebuttal
- Schedule B-1 Rebuttal
- Schedule B-2 Rebuttal
- Schedule C-1 Rebuttal
- Schedule C-2 Rebuttal
- Schedule H-3 Rebuttal

I INTRODUCTION

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE
NUMBER.**

A. My name is Ray L. Jones. My business address is 25213 N. 49th Dr., Phoenix, Arizona
85083, and my business phone is (623) 341-4771.

**Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED
DIRECT TESTIMONY IN THIS DOCKET?**

A. Yes.

II PURPOSE OF TESTIMONY

Q. HAVE YOU REVIEWED STAFF'S DIRECT TESTIMONY IN THIS CASE?

A. Yes, I reviewed the testimony provided by Mr. Alexander Igwe and Mr. Jian Liu.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In my testimony:

- I sponsor Sunrise's rebuttal revenue requirement.
- I respond to Staff's direct testimony positions regarding cost of capital, rate base and operating income and detail Sunrise's rebuttal positing pertaining to remaining points of disagreement with Staff.
- I sponsor attached Exhibit RLJ-R1 containing the following updated schedules referenced in my rebuttal testimony.
 - Schedule A-1 Rebuttal
 - Schedule B-1 Rebuttal
 - Schedule B-2 Rebuttal
 - Schedule C-1 Rebuttal
 - Schedule C-2 Rebuttal

○ Schedule H-3 Rebuttal

III REBUTTAL REVENUE REQUIREMENT

Q. WHAT IS SUNRISE'S REBUTTAL REVENUE REQUIREMENT?

A. Sunrise's rebuttal revenue requirement is shown on Schedule A-1 Rebuttal. Sunrise has reduced its requested revenue increase to \$217,866, an increase of 16.70% over adjusted test-year revenues of \$1,304,363.

Q. WOULD YOU SUMMARIZE SUNRISE'S AND STAFF'S REVENUE REQUIREMENT POSITIONS?

A. The proposed revenue requirements and associated rate increases are summarized as follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>% Increase</u>
Sunrise Direct	\$1,590,295	\$285,932	21.92%
Staff Direct	\$1,378,396	\$26,218	1.94%
Sunrise Rebuttal	\$1,522,229	\$217,866	16.70%

IV COST OF CAPITAL

Q. DOES SUNRISE ACCEPT STAFF'S COST OF CAPITAL RECOMENDATION?

A. Yes, Staff has recommended adoption of Sunrise's proposed 10 percent Fair Value Rate of Return.

V ACCEPTED STAFF ADJUSTMENTS

Q. WHICH OF STAFF'S RATE BASE ADJUSTMENTS DOES SUNRISE ACCEPT?

A. Sunrise accepts Staff Rate Base Adjustment No. 1, which increases accumulated depreciation by \$135,964 over Sunrise's proposal of \$2,492,247. I have added Rate Base Adjustment RLJ-9 (Page 11, Schedule B-2 Rebuttal) to reflect acceptance of this Staff adjustment.

1 **Q. WHICH OF STAFF'S OPERATING INCOME ADJUSTMENTS DOES SUNRISE**
2 **ACCEPT?**

3 A. Sunrise accepts the following Operating Income Adjustments:

Operating Income Adjustment No.	Expense Category	Adjustment Amount
2	Salaries and Wages	(\$68,913)
3	Salaries and Wages	\$4,243
5	Office Supplies Expense	(\$1,500)
7	Water Testing Expense	\$2,184
10	Rent Expense	\$1,500
11	Rent Expense	\$19,521
12	Transportation Expense	(\$3,508)
13	Transportation Expense	(\$8,485)
14	Transportation Expense	(\$6,300)
15	Miscellaneous Expense	(\$2,285)
16	Miscellaneous Expense	\$6,413
17	Miscellaneous Expense	\$50,216
18	Miscellaneous Expense	(\$19,521)
19	Depreciation Expense	<u>\$10,210</u>
20		
Total accepted Operating Income Adjustments		(\$16,225)

22 **Q. HOW DID YOU REFLECT SUNRISE'S ACCEPTANCE OF THESE STAFF**
23 **OPERATING INCOME ADJUSTMENTS?**

24 A. I added Income Statement Adjustment RLJ-19 (Page 23, Schedule C-2 Rebuttal)
25 incorporating all of the accepted Staff Operating Income Adjustments.

26 **VI RATE BASE**

27 **Q. WHAT IS THE REMAINING DISAGREEMENT BETWEEN SUNRISE AND**
28 **STAFF REGARDING RATEBASE?**

29 A. Sunrise proposed Rate Base Adjustment RLJ-6 decreasing Sunrise's Advance balance by
30 \$128,356 to reflect the refund of Advances made in August of 2008. Staff rejects
31 Sunrise's proposal and offers its Rate Base Adjustment No.2 restoring \$128,356 to
32 Sunrise's Advance balance.

1 **Q. PLEASE SUMMARIZE STAFF'S POSITION REGARDING THE AIAC**
2 **BALANCE?**

3 A. Staff argues that Sunrise's proposal to reduce test-year end AIAC by the amount of a
4 post-test-year refund creates a mismatch between investor provided capital and revenue
5 that is inconsistent with sound ratemaking principals.

6 **Q. DO YOU AGREE WITHS STAFF'S POSITION?**

7 A. No I do not. A.A.C. R14-2-103 prescribes the requirements for a filing in support of a
8 proposed increase in rates or charges of a public service corporation. The requirements
9 include provisions for pro forma adjustments which are defined as "adjustments to actual
10 test-year results and balances to obtain a normal or more realistic relationship between
11 revenues, expenses and rate base." I believe Rate Base Adjustment RLJ-6 is appropriate
12 and provides a more realistic relationship between revenues and rate base.

13 **Q. PLEASE ELABORATE?**

14 A. The refund payment made in August of 2008 is required by Commission rules and is
15 based on revenues generated during the period July 1, 2007, through June 30, 2008. By
16 the end of the 2007 test year, six months of revenue for the 12-month refund period had
17 been received by Sunrise. Receipt of this revenue creates a known and measureable
18 liability for refund of Advances during the test year. This is fundamentally no different
19 than accruing the cost of electricity or any other operating expense which has been
20 incurred but not yet paid by the end of the test year. Since the refund obligation was
21 accrued during the test year, it is appropriate to include the known and measureable
22 refund amount as a pro-forma adjustment to rate base.

1 **Q. IS SUNRISE WILLING TO COMPROMISE IN ORDER TO ACCOMDATE**
2 **STAFF'S POSITION ON THIS ISSUE?**

3 A. Yes. Sunrise has revised its proposed Rate Base Adjustment RLJ-6 to include only 50%
4 of the August 2008 refund amount. Sunrise has proposed a 50% reduction in recognition
5 that the payment is based on six months of revenue received during the test year and six
6 months of revenue received post test year. In summary, Sunrise proposes to make a pro-
7 forma adjustment for that portion of the Advance refund that had accrued and become
8 payable as of the end of the test year. This compromise position creates a more realistic
9 relationship between rate base and revenue as of the end of the test year.

10 **Q. WOULD YOU SUMMARIZE SUNRISE'S AND STAFF'S RATE BASE**
11 **POSITIONS?**

12 A. Sunrise's and Staff's rate base positions are summarized as follows:

	<u>Sunrise Direct</u>	<u>Staff Direct</u>	<u>Sunrise Rebuttal</u>
Adjusted Rate Base	\$1,448,154	\$1,183,834	\$1,248,012

15 **VII OPERATING INCOME**

16 **A HYDRANT-WATER SALES**

17 **Q. WHAT IS STAFF'S RECOMMENDATION REGARDING SUNRISE'S**
18 **PROPOSAL TO NORMALIZE HYDRANT-WATER SALES REVENUE?**

19 A. Staff has proposed Operating Income Adjustment No. 1, rejecting Sunrise's proposal to
20 normalize hydrant-water sales, which has the effect of increasing test-year revenue by
21 \$47,815. Additionally, Staff has proposed Operating Income Adjustment No.4, rejecting
22 Sunrise's proposal to normalize power costs consistent with the normalized level of
23 hydrant-water sales.

1 **Q. HAS SUNRISE CHANGED ITS POSITION REGARDING NORMALIZATION**
2 **OF HYDRANT-WATER SALES?**

3 A. No, it has not. As explained by Mr. Collins in his rebuttal testimony, Sunrise's base
4 hydrant-water sales¹ peaked dramatically in 2006 and began a steady decline to historic
5 levels beginning in the 2007 test year and continuing through 2008 and 2009. As
6 explained by Mr. Collins, this pattern of hydrant-water sales combined with sales, for the
7 Flood Control Project, resulted in 2007 test-year sales significantly above a normal and
8 sustainable level of hydrant sales for Sunrise.

9 **Q. WHY HAS SUNRISE PROPOSED TO NORMALIZE HYDRANT-WATER**
10 **SALES?**

11 A. As required by A.A.C. R14-2-103, Sunrise is proposing a pro-forma adjustment to
12 establish a normal and more realistic relationship between test-year revenue and the rate
13 base used to generate the revenue.

14 **Q. WHAT IS SUNRISE'S METHOD OF NORMALIZATION OF HYDRANT-**
15 **WATER SALES?**

16 A. Sunrise has made two adjustments to normalized hydrant-water sales:

- 17 • Income Statement Adjustment RLJ-8:
 - 18 ○ removes hydrant-water sales for the Flood Control Project from the test-year
 - 19 hydrant-water sales, and
 - 20 ○ calculates a five-year average of hydrant-water sales for years 2003 – 2007 to
 - 21 represent a normalized level of hydrant-water sales.

¹ Mr. Collins defines base sales as total hydrant-water sales less sales for the Flood Control Project and the Happy Valley Project.

- Income Statement Adjustment RLJ-9 reduces pumping-power expense to reflect the lower normalized level of hydrant-water sales.

Q. PLEASE SUMMARIZE STAFF'S OBJECTION TO SUNRISE'S PROPOSED NORMALIZATION OF HYDRANT-WATER SALES?

A. Staff concludes that Sunrise's hydrant sales normalization proposal is not consistent with the rate making concept of normalization. They support this conclusion with the following statements.

- Sunrise recorded low levels of hydrant-water sales between 2003 and 2005.
- In 2006 and 2007, Sunrise's revenues from hydrant-water sales increased significantly.
- From the information provided by Sunrise, there has been no significant fluctuation of hydrant-water sales. Rather there has been a steady rise in revenues for hydrant-water sales.
- Sunrise's water sales in 2008 exceeded 2007 levels and included continued sales to the Maricopa County Flood Control District and sales for the new Happy Valley Project.
- Sunrise's statement that future hydrant-water sales could be overstated if test-year hydrant-water sales is not normalized, is speculative. The timing and impact of such an occurrence is not known and measureable at this time.

Q. PLEASE EXPLAIN WHY STAFF'S CONCLUSION SHOULD BE REJECTED?

A. I will take each of Staff's points in turn.

- Contrary to Staff's assertion, the levels of hydrant-water sales between 2003 and 2005 are not "low"; rather, as explained by Mr. Collins, they are representative of normal levels of hydrant-water sales for Sunrise. Since they are representative of

1 normal levels of hydrant-water sales, it is essential they be used in a five-year average
2 to normalize the unusually high level of sales recorded during the 2007 test year.

- 3 • Sunrise agrees with Staff's assertion that Sunrise's revenues from hydrant-water sales
4 increased significantly in 2006 and 2007. However, Mr. Collin's testimony
5 establishes that the increase in sales is not representative of expected sales on a going
6 forward basis. Therefore, the unsustainable increase in hydrant-water sales is,
7 contrary to Staff's assertion, actually justification for normalizing Sunrise's hydrant-
8 water sales.

- 9 • Staff's statement that water sales have not fluctuated, but have instead been on a
10 steady rise is correct, to a point. Mr. Collins explains that the increase in 2007 and
11 2008 was entirely due to water sales to the Flood Control Project and the Happy
12 Valley Project. These two projects account for 52.3% of sales in 2007 and 77.0% of
13 sales in 2008. Mr. Collins explains that these projects were not representative of
14 ongoing construction activity in Sunrise's service area and are now completed. Mr.
15 Collins establishes that Sunrise is not experiencing the level of sales associated with
16 these projects in 2009, and that Sunrise cannot expect this level of sales in the
17 foreseeable future. Lastly, Mr. Collins explains that during 2007 and 2008, base
18 hydrant-water sales were actually decreasing dramatically. Mr. Collins' detailed
19 analysis of the hydrant sales data shows that the steady rise in sales is entirely the
20 result of non-recurring projects that mask a significant fluctuation in base sales,
21 which should be normalized.

- 22 • Staff's statement that Sunrise's water sales in 2008 exceeded 2007 levels and
23 included continued sales to the Maricopa County Flood Control District and sales for
24 the new Happy Valley Project is correct, but incomplete. Mr. Collins establishes that
25 these projects were not representative of on-going construction in the Sunrise service

1 area and that, as of year-end 2008, hydrant-water sales to both of these projects had
2 ceased. Since Sunrise will receive no revenue from these projects during the period
3 for which rates will be in effect, the one-time benefit to hydrant-water sales in 2008
4 from these projects is not relevant to Sunrise's proposal to normalize test-year
5 hydrant-water sales.

- 6 • It was not speculative, as asserted by Staff, for Sunrise to state that future hydrant-
7 water sales could be overstated if test-year hydrant-water sales were not normalized.
8 Mr. Collins establishes through his analysis of base hydrant-water sales that the 2006
9 peak in hydrant sales was followed by a steady decline in 2007 and 2008 toward
10 historic levels of sales. This decline was recognized by Sunrise at the time it prepared
11 its filing and is precisely why Sunrise proposed normalizing hydrant-water sales. As
12 established by Mr. Collins, the impact of the decline is known and measureable and
13 failing to normalize hydrant sales will result in overstatement of test-year hydrant-
14 water sales.

15 **Q. PLEASE SUMMARIZE SUNRISE'S POSITION ON NORMALIZING**
16 **HYDRANT-WATER SALES?**

17 A. Sunrise sold a large amount of water for the Flood Control Project during the 2007 test
18 year. Since the sales were so large and were due to a large regional project that is not
19 representative of normal construction within Sunrise's service area, it is appropriate to
20 normalize sales by eliminating the sales for the Flood Control Project from the test-year
21 hydrant-water sales. Due to the housing boom in the Phoenix market, base hydrant-water
22 sales peaked sharply in 2006, began a steady decline in 2007, and in 2009 are expected to
23 be below 2003 levels. A five-year average of base hydrant-water sales over the period
24 2003-2007 is an appropriate method to normalize hydrant-water sales. Without Sunrise's
25 proposed normalization adjustment, test-year revenues will not represent revenues on a

1 going forward basis and create a mismatch between revenue and rate base. Staff's
2 proposed Operating Income Adjustment No. 1 and Operating Income Adjustment No. 4
3 should be rejected.

4 **B OUTSIDE SERVICES**

5 **Q. WHAT IS SUNRISE'S POSITION REGARDING STAFF PROPOSED**
6 **OPERATING INCOME ADJUSTMENT NO. 6?**

7 A. As explained by Mr. Collins in his rebuttal testimony, the Commission should not accept
8 Staff's adjustment to disallow \$27,000 in outside services provided by SRW Consulting.
9 Mr. Collins has instead proposed an adjustment eliminating \$13,500 or 50% of the cost of
10 the services provided by SRW Consulting.

11 **Q. HOW DID YOU ACCOUNT FOR THE \$13,500 REDUCTION IN OUTSIDE**
12 **SERVICES PROPOSED BY MR. COLLINS?**

13 A. I added Income Statement Adjustment RLJ-20 (Page 24, Schedule C-2 Rebuttal)
14 reducing test-year outside services expense by \$13,500.

15 **C BARN, WORKSHOP, STORAGE, FIELD OFFICE AND YARD RENTAL**

16 **Q. WHAT IS SUNRISE'S POSITION REGARDING STAFF PROPOSED**
17 **OPERATING INCOME ADJUSTMENT NO. 8 AND OPERATING INCOME**
18 **ADJUSTMENT NO. 9?**

19 A. As explained by Mr. Collins in his rebuttal testimony, the adjustments proposed by Staff
20 should be rejected.

D PERMIT AND RECORDING FEES

**Q. DO YOU AGREE WITH STAFF'S PROPOSED OPERATING INCOME
ADJUSTMENT NO. 15 ELIMINATING \$3,992 FOR PERMIT AND RECORDING
FEES?**

A. I am in partial agreement with Staff's recommendation. My review of the actual test-year charges indicates that \$3,350 of the charges is for Sunrise's Annual Operating Permit issued by Maricopa County Environmental Services Department. A copy of the Permit Renewal Invoice is attached as Exhibit RLJ-R2. The Annual Operating Permit is an operating expense and is properly included in test-year expenses. As noted by Staff, the remaining \$642 is more appropriately charged to capital.

**Q. HOW DID YOU ACCOUNT FOR THE \$642 IN COST THAT SHOULD BE
CAPITALIZED?**

A. I added Income Statement Adjustment RLJ-21 (Page 25, Schedule C-2 Rebuttal) reducing test-year revenue by \$642.

E PROPERTY TAXES

Q. HAVE YOU REVIEWED STAFF'S PROPERTY TAX ADJUSTMENT?

A. Yes, I have reviewed the adjustment.

**Q. DID STAFF MAKE ANY ADJUSTMENTS TO THE CALCULATION FACTORS
PROPOSED BY SUNRISE?**

A. Yes. Staff made several changes to the factors proposed by Sunrise as described below.

- Staff reduced the assessment ratio from 23.0% to 22.5%.

- Staff increased the CWIP factor from \$5,709 to \$20,865.
- Staff increased the Book Value of Licensed Vehicles from \$0 to \$181,994.
- Staff reduced the Composite Property Tax Rate from 10.0306% to 7.41614%.

Q. DO YOU AGREE WITH STAFF'S CHANGES?

A. I agree with Staff's assessment ratio of 22.5%, but I disagree with the other changes.

Q. HAS STAFF INDICATED THEIR POSITION HAS CHANGED SINCE FILING DIRECT TESTIMONY?

A. Yes. In its response to Sunrise's first set of data requests, Staff indicated that it now agrees that the book value of licensed vehicles is \$0 and that the composite tax rate is 10.0306%.

Q. WHERE DID YOU OBTAIN YOUR CWIP FACTOR OF \$5,709?

A. The factor is 10% of the CWIP balance shown on Line 5 of schedule E-1 for the test year.

Q. HAVE YOU UPDATED YOUR PROPERTY TAX ADJUSTMENT RLJ-12 TO REFLECT YOUR REBUTTAL POSITION?

A. Yes. As indicated on page 16 of Schedule C-2 Rebuttal, Sunrise requests a property tax expense of \$62,283.

F INCOME TAX

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING INCOME TAX EXPENSE IN THIS CASE?

A. Staff is recommending that income tax expense be excluded from the expenses of Sunrise.

1 **Q. WHY DOES STAFF MAKE THIS RECOMMENDATION?**

2 A. Staff states that because Sunrise is exempt from corporate tax, Sunrise does not incur
3 income tax expense as a cost of service.

4 **Q. PLEASE COMMENT ON STAFF'S POSITION REGARDING INCOME TAX**
5 **EXPENSE?**

6 A. I do not agree with Staff's position for the reasons outlined below.

- 7 • The net income of Sunrise creates an income tax liability that is a direct result of
8 providing water service and is appropriately recovered in rates.
- 9 • The Commission has included income tax expense in the rates of Sunrise in past rate
10 cases.
- 11 • The Commission has included income tax expense in the rates of other Subchapter S
12 corporations ("S-Corp"), Subchapter C corporations ("C-Corp"), and Limited
13 Liability Companies ("LLC") that do not directly pay income tax.
- 14 • Adoption of Staff's position will weaken Sunrise's financial condition and result in a
15 decrease in the availability of funds for Sunrise to continue making needed
16 improvements to its system.

17 **Q. PLEASE DISCUSS WHY THE INCOME TAX LIABILITY CREATED BY**
18 **SUNRISE SHOULD BE RECOVERED IN RATES.**

19 A. It is not disputed that the net income generated by Sunrise through the provision of
20 regulated water services is subject to State and Federal income tax. That tax liability
21 would not exist absent the provision of regulated water services by Sunrise. Clearly the
22 tax is an expense incurred in the provision of water service by Sunrise. Accordingly, like
23 any other expense prudently incurred in the operation of a regulated entity, the income

1 tax expense should be recovered in rates of the regulated entity, unless circumstances
2 particular to the regulated entity warrant a disallowance of the income tax expense.

3 Staff's position is based solely on the technicality that, as an S-Corp, Sunrise does not
4 directly pay the income tax. Staff provides no other justification for denial of the
5 expense. Staff's position to deny a real cost of providing service based on a generic
6 technicality is flawed and should be rejected.

7 **Q. WHAT DO YOU MEAN BY CIRCUMSTANCES PARTICULAR TO THE**
8 **REGULATED ENTITY?**

9 A. I am talking about the specific facts of a regulated utilities' case before the Commission.
10 For example, in the case of a utility that has failed to reinvest a prudent level of earnings
11 into plant and facilities, the Commission may determine that denying recovery of income
12 tax expense is appropriate. Or, in the case of a utility that has a small or negative rate
13 base, it may be appropriate to deny income tax recovery when establishing rates based on
14 an operating margin. Absent these or other compelling circumstances the income tax
15 expense should be an allowable expense in the rates of the utility.

16 **Q. HOW HAS THE COMMISSION TREATED INCOME TAX EXPENSE IN**
17 **PREVIOUS SUNRISE WATER CASES?**

18 A. I have reviewed Sunrise's files for its two previous rate cases and determined that in both
19 cases the Commission has approved rates that included the recovery of income tax
20 expense.

1 **Q. ARE YOU AWARE OF THE COMMISSION APPROVING RECOVERY OF**
2 **INCOME TAXES IN RATES FOR OTHER COMPANIES THAT DO NOT**
3 **DIRECTLY PAY INCOME TAXES?**

4 A. Yes I am.

5 First, there are numerous C-Corps that do not directly pay income taxes. Under Federal
6 tax law and Arizona tax law, the parent company of a C-Corps has the option of
7 including its subsidiary's income on the parent company's tax return. The tax return is
8 commonly referred to as consolidated tax return. Under this scenario, the parent
9 company, not the locally regulated C-Corp, pays the income tax. Numerous regulated C-
10 Corps in Arizona file taxes on a consolidated basis. For these entities, the Commission
11 routinely calculates income taxes as if the C-Corp filed taxes on a standalone basis and
12 includes the pro forma income tax expense in the rates of those companies.

13 Second, as noted above, the Commission has authorized recovery of income taxes for
14 Sunrise in previous cases and has more recently² approved income taxes in the rates of
15 Camp Verde Water System, Inc., an S-Corp.

16 Third, I am aware of a very recent³ decision in the case of Wickenburg Ranch Water LLC
17 where the Commission included income taxes in approved rates.

18 **Q. IF STAFF'S POSTION REGARDING INCOME TAXES IS ADOPTED, WHAT**
19 **IMPACT WILL IT HAVE ON THE FINANCIAL CONDITION OF SUNRISE?**

20 A. It will weaken Sunrise's financial condition. Sunrise's revenue and after-tax net income
21 will decline. The decline will result in lower operating margins, lower debt coverage
22 ratios, lower retained earnings, and lower returns on equity.

² See Decision No. 60105 dated March 19, 1997

³ See Decision No. 70741 dated February 12, 2009

1 **Q. WHAT WILL BE THE LONG-TERM RESULT OF THIS FINANCIAL**
2 **WEAKENING OF SUNRISE?**

3 A. The loss of revenue will translate directly into a decrease in the availability of funds for
4 Sunrise to continue making prudent investments into maintaining and growing its water
5 system.

6 Specifically, as explained by Mr. Collins, the loss of revenue will directly impact
7 availability of funds in the following three ways.

- 8 • Retained earnings available for capital improvements will be reduced dollar for dollar
9 by the reduction in revenue due to the disallowance of income tax expense.
- 10 • The reduction in revenue will reduce cash flow thereby reducing debt coverage ratios,
11 reducing the availability of debt financing from WIFA or other debt providers.
- 12 • Since income taxes must be paid on the income generated by Sunrise, Mr. Campbell
13 will experience a significant reduction on the real return on equity for Sunrise. As
14 with any business enterprise, a diminished return on equity for Sunrise will negatively
15 impact its ability to raise additional capital from its shareholder, Mr. Campbell.

16 **Q. MR. COLLINS MENTIONS THAT SUNRISE WILL EXPERIENCE**
17 **DIMINISHED REAL RETURN ON REAL EQUITY. HAVE YOU QUANTIFIED**
18 **THIS REDUCTION?**

19 A. Yes I have. Based on Sunrise's rebuttal case, excluding income tax from rates is the
20 equivalent of a 298 basis point reduction in the authorized return on equity. The
21 calculation is detailed in the table below.

	Income Tax Included in Revenue Requirement	Income Tax Not Included in Revenue Requirement	Difference	Percent Difference
Total Revenues	\$ 1,522,229	\$ 1,455,628	\$ (66,601)	-4.38%
Operating Expenses	1,331,829	1,330,827	(1,002)	-0.08%
EBIT	190,400	124,801	(65,599)	-34.45%
Income Tax (included in Rates)	65,599	-	(65,599)	-100.00%
Net Income	124,801	124,801	0	0.00%
Income Tax (Not In Rates)	-	37,227	37,227	
Real Net Income	\$ 124,801	\$ 87,574	\$ (37,227)	-29.83%
Common Equity In Rate Base	\$ 1,248,012	\$ 1,248,012	\$ -	0.00%
Real Return on Equity	10.00%	7.02%	-2.98%	-29.83%

VIII RATE DESIGN

Q. HAVE YOU REVIEWED THE RATE DESIGN PROPOSED BY STAFF?

A. Yes I have.

**Q. HOW HAS STAFF CHANGED THE RATE DESIGN COMPARED TO
SUNRISES PROPOSED RATE DESIGN?**

A. Staff has made two changes to the rate design. First, Staff has increased the base charges to yield higher revenues from monthly minimum charges. Second, Staff has changed the break-over points for the ¾" meter size. Specifically, the break-over point between the second and third tier has been decreased from 18,000-gallons to 13,000-gallons.

1 **Q. DO YOU AGREE WITH THESE CHANGES?**

2 A. I agree with Staff that Sunrise's proposed rate design did not generate sufficient revenue
3 from the monthly minimum charges. However, I disagree with Staff's change to the
4 break-over point for ¾" meters.

5 **Q. HAVE YOU ADOPTED STAFF'S RECOMMENDED BASE CHARGES IN**
6 **SUNRISE'S REBUTTAL POSITION?**

7 A. Yes, I have adopted Staff's recommended base charges.

8 **Q. WHY DO YOU DISAGREE WITH STAFF REGARDING THE CHANGE IN THE**
9 **BREAK-OVER POINT FOR THE ¾" METER SIZE?**

10 A. I propose a break-over point between tier 2 and tier 3 of 18,000-gallons. This break-over
11 point was selected to coincide with the average usage of the ¾" residential class. I
12 believe it is generally appropriate that tier three billing rates begin when usage exceeds
13 the average for the meter size, and I have adopted this methodology to set the break-over
14 points for meter sizes through 1.5-inch diameter. As noted in my direct testimony, I
15 adopted a break-over point for the two-inch meter below the average usage to encourage
16 additional water conservation by Sunrise's largest water users.

17 **Q. WHAT IS SUNRISE'S REBUTTAL POSITION REGARDING THE BREAK-**
18 **OVER POINT FOR THE ¾" METER SIZE?**

19 A. Sunrise continues to propose a break-over point between tier 2 and tier 3 of 18,000-
20 gallons for the ¾" meter size. Sunrise believes that establishing the break-over point at
21 the average usage for the ¾" meter sends proper conservation price signals to Sunrise
22 customers without placing undue burden on below average usage.

1 **Q. WHAT IS YOUR POSITION REGARDING STAFF'S PROPOSED SERVICE**
2 **CHARGES?**

3 A. Staff's service charges for several items are slightly lower than those proposed by
4 Sunrise. Sunrise proposed service charges that are consistent⁴, with those approved by
5 the Commission on August 29, 2006, in Decision 68925 for Sunrise's sister company
6 West End Water Co. Sunrise requests that Staff adopt Sunrise's proposed service charges
7 so that Sunrise's service charges will be the same as those for West End Water Co. This
8 will provide administrative convenience for the common customer service staff serving
9 the two companies.

10 **Q. WHAT IS SUNRISE'S POSITION REGARDING STAFF'S PROPOSED**
11 **SERVICE LINE AND METER INSTALLATION CHARGES?**

12 A. The charges proposed by Staff are acceptable to Sunrise. However, Staff has included a
13 cost for installation of a 5/8" x 3/4" meter and service line. Due to the large lot size
14 throughout Sunrise's service area, Sunrise does not offer the 5/8" x 3/4" meter size as a
15 service option. Sunrise requests that Staff eliminate the 5/8" x 3/4" meter size from its
16 recommendation.

17 **Q. HAVE YOU PREPARED A SCHEDULE DETAILING SUNRISE'S REBUTTAL**
18 **RATE DESIGN?**

19 A. Yes, Schedule H-3 Rebuttal provides Sunrise's proposed rate design.

⁴ The NSF Check charge and Meter Re-Read charge proposed in Sunrise's direct testimony were mistakenly inconsistent with the West End Water Co. charge. Sunrise has corrected this error in its Schedule H-3 Rebuttal.

1 **Q. WHAT IS THE IMPACT OF SUNRISE'S RATE DESIGN ON A TYPICAL**
2 **RESIDENTIAL CUSTOMER?**

3 A. Sunrise's rebuttal rate design increases the monthly bill for a ¾" metered residential
4 customer, with an average consumption of 17,782 gallons, from \$62.68 to \$65.31, an
5 increase of \$2.63 or 4.20%.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes, it does.

EXHIBIT

RLJ – R1

Sunrise Water Co.
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirements

Exhibit: RLJ-R1
Schedule A-1 Rebuttal
Page 1
Witness: Jones

Line
No.

1	Original Cost Adjusted Rate Base	\$ 1,248,012	
2			
3	Adjusted Operating Income	(27,466)	
4			
5	Current Rate of Return	-2.20%	
6			
7	Required Operating Income	\$ 124,801	
8			
9	Required Rate of Return	10.00%	
10			
11	Operating Income Deficiency	\$ 152,267	
12			
13	Gross Revenue Conversion Factor	1.4308	
14			
15	Increase in Gross Revenue	\$ 217,866	16.70%
16			
17			

18		Projected	
19		Revenue	%
20		Increase Due	Dollar
21	<u>Customer Classification</u>	<u>To Rates</u>	<u>Increase</u>
22			
23	Residential	\$ 202,718	16.16%
24	Commercial	3,478	21.61%
25	Hydrant	12,517	49.50%
26	Coin Standpipe	408	17.26%
27			
28	Total Revenue Increase	\$ 219,121	16.88%
29			

Supporting Schedules:

31 B-1 C-1
32 C-3 H-1
33
34

Sunrise Water Co.
Test Year Ended December 31, 2007
Summary of Original Cost Rate Base Elements

Exhibit: RLJ-R1
Schedule B-1 Rebuttal
Page 1
Witness: Jones

Line <u>No.</u>		Original Cost <u>Rate Base*</u>
1		
2	Gross Utility Plant in Service	\$ 10,408,383
3		
4	Less: Accumulated Depreciation	<u>2,628,211</u>
5		
6	Net Utility Plant in Service	7,780,172
7		
8	Accumulated Deferred Income Taxes	143,632
9		
10	Less:	
11	Advances in Aid of Construction	6,320,530
12		
13	Contributions in Aid of Construction - Net of Amort.	263,407
14		
15	Customer Security Deposits	91,855
16		
17	Plus:	
18	Working Capital	<u>-</u>
19		
20	Rate Base	<u>\$ 1,248,012</u>
21		
22	* including pro forma adjustments	
23		
24		
25	<u>Supporting Schedules:</u>	
26	B-2 B-5	
27	B-3 E-1	
28		
29		

Recap Schedules:
A-1

Sunrise Water Co.
Test Year Ended December 31, 2007
Original Cost Rate Base Pro forma Adjustments

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 1
Witness: Jones

Line No.		[A] Actual End of Test Year	[B] ADJ RLJ-1	[C] ADJ RLJ-2	[D] ADJ RLJ-3	[E] ADJ RLJ-4	[F] ADJ RLJ-5
1							
2	Gross Utility Plant in Service	\$ 9,752,043	\$ 287,858				\$ 168,481
3							
4	Less: Accumulated Depreciation	1,952,470		539,777			
5							
6	Net Utility Plant in Service	7,799,573	287,858	(539,777)	-	-	168,481
7							
8	Accumulated Deferred Income Taxes					143,632	
9							
10	Less:						
11	Advances in Aid of Construction	6,052,614			332,094		
12							
13	Contributions in Aid of Construction	425,049					
14							
15	Accumulated Amortization of CIAC	(8,945)					
16							
17	Contributions in Aid of Construction - Net	416,104	-	-	-	-	-
18							
19	Customer Security Deposits	91,855					
20							
21	Plus:						
22	Working Capital	-					
23							
24	Rate Base	\$ 1,239,001	\$ 287,858	\$ (539,777)	\$ (332,094)	\$ 143,632	\$ 168,481

30 Supporting Schedules:
31 E-1
32
33

Recap Schedules:
B-1

Sunrise Water Co.
Test Year Ended December 31, 2007
Original Cost Rate Base Pro forma Adjustments

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 2
Witness: Jones

Line No.	[G] ADJ RLJ-6	[H] ADJ RLJ-7	[I] ADJ RLJ-8	[J] ADJ RLJ-9	[K] Total Pro Forma Adjustments	[L] Adjusted End of Test Year
1						
2			\$ 200,000		\$ 656,339	\$ 10,408,383
3						
4				135,964	675,741	2,628,211
5						
6	-	-	200,000	(135,964)	(19,401)	7,780,172
7						
8					143,632	143,632
9						
10						
11	(64,178)				267,916	6,320,530
12						
13					-	425,049
14						
15		(152,696)			(152,696)	(161,641)
16						
17	-	(152,696)	-	-	(152,696)	263,407
18						
19					-	91,855
20						
21						
22					-	-
23						
24	\$ 64,178	\$ 152,696	\$ 200,000	\$ (135,964)	\$ 9,011	\$ 1,248,012
25						
26						
27						
28						
29						
30	<u>Supporting Schedules:</u>					
31	E-1					
32						
33						

Sunrise Water Co.
 Test Year Ended December 31, 2007
 Rate Base Adjustment RLJ-1

Exhibit: RLJ-R1
 Schedule B-2 Rebuttal
 Page 3
 Witness: Jones

Line

No.

1 Adjust Plant In Service Balance to Conform With Decision No. 53721

2

3 Commission Decision No. 53721 dated August 31, 1983 established the Original Cost of Plant In Service
 4 less Depreciation to be \$494,038. The finding is based on the Staff Report dated July 31, 1982 in
 5 Docket number U-2069-83-042. In the Staff Report, the Original Cost of Plant In Service was
 6 \$571,139. Sunrise Water Co. did not adjust its Plant in Service Balance to conform to the
 7 Commission finding in Decision No. 53721. This adjustment conforms the July 31, 1982
 8 Plant in Service balance to the Commission finding in Decision No. 53721.
 9

	Plant In Service Balance per Decision No. <u>53721</u>	Balance per 7/31/1982 <u>G/L</u>	Amount Booked in Subsequent Years for PIS on 7/31/1982	Plant In Service <u>Adjustment</u>
16 Land and Land Rights	\$ 38,000		\$ 33,696	\$ 4,304
17 Structures & Improvements	-	-	-	-
18 Wells & Springs	29,684	13,896	-	15,788
19 Pumping Equipment	23,761	11,124	-	12,637
20 Water Treatment Equipment				
21 Solution Feeders	-	-	-	-
22 Distribution Reservoirs & Standpipes				
23 Storage Tanks	38,064	17,819	-	20,244
24 Pressure Tanks	4,229	1,980	-	2,249
25 Transmission and Distribution Mains	383,304	179,441	-	203,863
26 Services	26,807	12,549	-	14,258
27 Meters	16,521	7,734	-	8,787
28 Hydrants	10,134	4,744	-	5,390
29 Office Furniture and Equipment		-	-	-
30 Computers and Software		-	-	-
31 Tools, Shop and Garage Equipment		-	-	-
32 Miscellaneous Equipment	635	297	-	338
33	<u>\$ 571,139</u>	<u>\$ 249,585</u>	<u>\$ 33,696</u>	<u>\$ 287,858</u>
34				
35 Plant In Service Balance per Decision No. 53721				\$ 571,139
36				
37 Less Plant In Service Balance July 31, 1982 G/L				\$ 283,281
38				
39 Less Amounts Booked in Subsequent Years for PIS on 7/31/1982				\$ 33,696
40				
41 Increase/(Decrease) to Plant In Service Balance				<u>\$ 287,858</u>
42				
43 Adjustment to Rate Base				<u>\$ 287,858</u>
44				
45				

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-2

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 4
Witness: Jones

Line

No.

1	<u>Adjust Accumulated Depreciation Balance to Conform With Decision No. 53721</u>	
2		
3	Commission Order No. 53721 dated August 31, 1983 established a depreciation rate of 5.0%	
4	for all classes of depreciable plant. The depreciation rate is detailed in the Staff Report dated July 31, 1982 in	
5	Docket number U-2069-83-042. This adjustment restates Accumulated Depreciation during the period	
6	July 31, 1982 through December 31, 2007 using the approved 5.0% depreciation rate.	
7		
8		
9		
10	Calculated Accumulated Depreciation Balance at Dec. 31, 2007	\$ 2,492,247
11		
12	Accumulated Depreciation Balance Dec. 31, 2007 G/L	<u>1,952,470</u>
13		
14	Increase/(Decrease) to Accumulated Depreciation Balance	<u>\$ 539,777</u>
15		
16	Adjustment to Rate Base	<u>\$ (539,777)</u>
17		
18	<u>Supporting Schedules:</u>	
19	B-2.2	
20		
21		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-3

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 5
Witness: Jones

Line

No.

1	<u>Adjust Advance Balance to Reflect Advances Recorded As Taxable Income</u>	
2		
3	Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those	
4	Advances that are considered income for tax purposes, Sunrise Water Co. records	
5	a debit in a contra account to Advances in Aid of Construction and a credit to	
6	Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the	
7	Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are	
8	tax entries and should be eliminated for regulatory purposes.	
9		
10	WXA Advance contra account Balance Dec. 31, 2007 G/L	\$ 276,599
11		
12	Meter Advance contra account Balance Dec. 31, 2007 G/L	<u>55,495</u>
13		
14	Increase/(Decrease) to Advance in Aid of Construction Balance	<u>\$ 332,094</u>
15		
16	Adjustment to Rate Base	<u>\$ (332,094)</u>
17		
18		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-4

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 6
Witness: Jones

Line

No.

1	<u>Adjust Accumulated Deferred Income Taxes to Reflect Taxes Paid on Taxable Advances</u>	
2		
3	Sunrise Water Co. does not debit Accumulated Deferred Income Taxes to reflect taxes paid	
4	on taxable Advances. This adjustment is needed to reflect the investment in taxes paid on advanced	
5	plant.	
6		
7		
8	Taxable Advance Balance Dec. 31, 2007 G/L	\$ 332,094
9		
10	Sunrise Water Co. Marginal Tax Rate	<u>43.2505%</u>
11		
12	Increase/(Decrease) to Accumulated Deferred Income Tax Balance	<u>\$ 143,632</u>
13		
14	Adjustment to Rate Base	<u>\$ 143,632</u>
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-5

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 7
Witness: Jones

Line

No.

1 Adjust Plant In Service to reflect post test year plant in service

2

3 Sunrise Water Co. has completed two post test year improvement projects related to
4 removal of Well No. 2 from its system due to high levels of arsenic. These improvements
5 are non revenue producing and should be included in rate base.

6

7
8 Actual Cost 91st Ave Water Main \$ 115,270

9
10 Actual Cost 83rd Ave. Water Main 45,534

11
12 Total Construction Cost 160,804

13
14 Construction Overhead Rate 4.77%

15
16 Capitalized Overhead 7,677

17
18 Increase/(Decrease) to Plant in Service \$ 168,481

19
20 Adjustment to Rate Base \$ 168,481

21

22

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-6

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 8
Witness: Jones

Line

No.

1	<u>Adjust Advance Balance to Reflect Refunds Paid</u>	
2		
3	Sunrise Water Co. refunds advances each year based on revenues for the	
4	12-month period between the previous July 1 and June 30 of the current year.	
5	The refund paid in 2008 is known and measurable and is properly included in rate base.	
6		
7		
8	Total Refund Due July 1, 2007 through June 30, 2008	\$ 128,356
9		
10	Allow 1/2 for period July 1, 2007 through December 31, 2007	64,178
11		
12	Increase/(Decrease) to Advance in Aid of Construction Balance	<u>\$ (64,178)</u>
13		
14	Adjustment to Rate Base	<u>\$ 64,178</u>
15		
16		

Sunrise Water Co.

Test Year Ended December 31, 2007

Rate Base Adjustment RLJ-7

Exhibit: RLJ-R1

Schedule B-2 Rebuttal

Page 9

Witness: Jones

Line

No.

1 Adjust Accumulated Amortization of Contributions in Aid of Construction to Conform With Decision No. 53721:

2

3 Commission Decision No. 53721 dated August 31, 1983 established a depreciation rate of 5.0%
4 for all classes of depreciable plant. The depreciation rate is detailed in the Staff Report dated July 31, 1982 in
5 Docket number U-2069-83-042. Contributions in Aid of Construction should be amortized using the 5.0%
6 rate approved in Decision No. 53721. Sunrise Water Co. has not amortized Contribution in Aid of Construction
7 consistent with Decision No. 53721. This adjustment restates Accumulated Contributions in Aid of Construction
8 during the period July 31, 1982 through Dec. 31, 2007 using the approved 5.0% amortization rate.
9

10 Calculated Accumulated Amortization of CIAC Balance at Dec. 31, 2007 \$ 161,641

11

12 Accumulated Amortization of CIAC Balance Dec. 31, 2007 G/L 8,945

13

14 Increase/(Decrease) to Accumulated Amortization of CIAC Balance \$ 152,696

15

16 Adjustment to Rate Base \$ 152,696

17

18 Supporting Schedules:

19 B-2.7

20

21

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-8

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 10
Witness: Jones

Line

No.

1	<u>Adjust Plant In Service to Include Land Placed in Service during 2007, But Not Recorded Until 2008:</u>	
2		
3	Sunrise Water Co. placed well No. 6 into service in 2007. However, the land transfer was not completed	
4	until 2008. It is appropriate to include the land for Well No. 6 in rate base.	
5		
6	Amount Booked for Well No. 6 Land in 2008	\$ 200,000
7		
8	Increase/(Decrease) to Plant in Service Balance	<u>\$ 200,000</u>
9		
10	Adjustment to Rate Base	<u>\$ 200,000</u>
11		
12		

Sunrise Water Co.
Test Year Ended December 31, 2007
Rate Base Adjustment RLJ-9

Exhibit: RLJ-R1
Schedule B-2 Rebuttal
Page 11
Witness: Jones

Line

No.

1 Adjustment to account for accepted Staff Rate Base Adjustment

2

3 Accumulated Depreciation:

4 Staff Rate Base Adjustment No. 1

\$ 135,964

5

6 Increase/(Decrease) to Accumulated Depreciation Balance

\$ 135,964

7

8 Adjustment to Rate Base

\$ (135,964)

9

10

Sunrise Water Co.
Test Year Ended December 31, 2007
Adjusted Test Year Income Statement

Exhibit: RLU-R1
Schedule C-1 Rebuttal
Page 1
Witness: Jones

Line No.		Actual for Test Year Ended 12/31/2007	Total Pro forma Adjustments	Test Year Results After Pro forma Adjustments	Proposed Rate Increase	Adjusted With Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,349,666	\$ (53,642)	\$ 1,296,025	\$ 217,866	\$ 1,513,891
3	Other Water Revenues	10,273	(1,935)	8,338		8,338
4	Total Revenues	<u>\$ 1,359,939</u>	<u>\$ (55,577)</u>	<u>\$ 1,304,363</u>	<u>\$ 217,866</u>	<u>\$ 1,522,229</u>
5	Operating Expenses					
6	Salaries and Wages	\$ 382,937	\$ (32,768)	\$ 350,170		\$ 350,170
7	Purchased Power	179,081	(9,408)	169,673		169,673
8	Chemicals	14,099	-	14,099		14,099
9	Repairs and Maintenance	26,549	-	26,549		26,549
10	Office Supplies Expense	49,245	2,987	52,233		52,233
11	Outside Services	45,163	(13,500)	31,663		31,663
12	Water Testing	2,635	2,184	4,819		4,819
13	Rents	37,664	21,021	58,685		58,685
14	Transportation Expense	74,769	(18,293)	56,476		56,476
15	Insurance - General Liability	11,141	-	11,141		11,141
16	Insurance - Health and Life	77,595	(26,821)	50,775		50,775
17	Regulatory Expense	-	25,000	25,000		25,000
18	Miscellaneous Expense	14,287	(2,086)	12,201		12,201
19	Depreciation Expense	307,762	98,301	406,063		406,063
20	Property Taxes	55,953	6,330	62,283		62,283
21	Income Taxes	-	-	-	65,599	65,599
22	Total Operating Expenses	<u>\$ 1,278,881</u>	<u>\$ 52,947</u>	<u>\$ 1,331,829</u>	<u>\$ 65,599</u>	<u>\$ 1,397,428</u>
23	Operating Income	<u>\$ 81,058</u>	<u>\$ (108,524)</u>	<u>\$ (27,466)</u>	<u>\$ 152,267</u>	<u>\$ 124,801</u>
24	Other Income (Expense)					
25	Interest and Dividend Income	\$ 54,790	\$ (54,790)	\$ -	\$ -	\$ -
26	Interest Expense	(2,161)	2,161	-	-	-
27	Total Other Income (Expense)	<u>\$ 52,628</u>	<u>\$ (52,628)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
28	Net Income (Loss)	<u>\$ 133,686</u>	<u>\$ (161,152)</u>	<u>\$ (27,466)</u>	<u>\$ 152,267</u>	<u>\$ 124,801</u>
29						
30						
31	<u>Supporting Schedules:</u>			<u>Recap Schedules:</u>		
32	E-2			A-1		
33	C-2					
34						
35						

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Pro forma Adjustments

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 1
Witness: Jones

Line No.	[A] ADJ RLJ-1	[B] ADJ RLJ-2	[C] ADJ RLJ-3	[D] ADJ RLJ-4	[E] ADJ RLJ-5
1	Revenues				
2					\$ (5,827)
3					
4		(1,935)			
5	Total Revenues	\$ -	\$ (1,935)	\$ -	\$ (5,827)
6	Operating Expenses				
7	Salaries and Wages				
8	Purchased Power				
9	Chemicals				
10	Repairs and Maintenance				
11	Office Supplies Expense		2,649	1,839	
12	Outside Services				
13	Water Testing				
14	Rents				
15	Transportation Expense				
16	Insurance - General Liability				
17	Insurance - Health and Life				
18	Regulatory Expense				
19	Miscellaneous Expense	(142,925)			
20	Depreciation Expense				
21	Property Taxes				
22	Income Taxes				
23	Total Operating Expenses	\$ (142,925)	\$ -	\$ 2,649	\$ 1,839
24	Operating Income	\$ 142,925	\$ (1,935)	\$ (2,649)	\$ (1,839)
25	Other Income (Expense)				
26	Interest and Dividend Income				
27	Interest Expense				
28	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -
29	Net Income (Loss)	\$ 142,925	\$ (1,935)	\$ (2,649)	\$ (1,839)
30					
31	<u>Supporting Schedules:</u>		<u>Recap Schedules:</u>		
32			C-1		
33					
34					

Line No.		[F] ADJ RLJ-6	[G] ADJ RLJ-7	[H] ADJ RLJ-8	[I] ADJ RLJ-9	[J] ADJ RLJ-10	[K] ADJ RLJ-11
1	Revenues						
2	Metered Water Revenues			\$ (47,815)			
3	Other Water Revenues						
4	Total Revenues	\$ -	\$ -	\$ (47,815)	\$ -	\$ -	\$ -
5	Operating Expenses						
6	Salaries and Wages						
7	Purchased Power	(5,425)	3,086		(7,069)		
8	Chemicals						
9	Repairs and Maintenance						
10	Office Supplies Expense						
11	Outside Services						
12	Water Testing						
13	Rents						
14	Transportation Expense						
15	Insurance - General Liability						
16	Insurance - Health and Life						
17	Regulatory Expense						
18	Miscellaneous Expense					106,658	
19	Depreciation Expense						88,091
20	Property Taxes						
21	Income Taxes						
22	Total Operating Expenses	\$ (5,425)	\$ 3,086	\$ -	\$ (7,069)	\$ 106,658	\$ 88,091
23	Operating Income	\$ 5,425	\$ (3,086)	\$ (47,815)	\$ 7,069	\$ (106,658)	\$ (88,091)
24	Other Income (Expense)						
25	Interest and Dividend Income						
26	Interest Expense						
27	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	Net Income (Loss)	\$ 5,425	\$ (3,086)	\$ (47,815)	\$ 7,069	\$ (106,658)	\$ (88,091)
29							
30							
31	<u>Supporting Schedules:</u>						
32							
33							
34							

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Pro forma Adjustments

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 3
Witness: Jones

Line No.		[L] ADJ <u>RLJ-12</u>	[M] ADJ <u>RLJ-13</u>	[N] ADJ <u>RLJ-14</u>	[O] ADJ <u>RLJ-15</u>	[P] ADJ <u>RLJ-16</u>	[Q] ADJ <u>RLJ-17</u>
1	Revenues						
2	Metered Water Revenues						
3	Other Water Revenues						
4	Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Operating Expenses						
6	Salaries and Wages			\$ 31,902			
7	Purchased Power						
8	Chemicals						
9	Repairs and Maintenance						
10	Office Supplies Expense						
11	Outside Services						
12	Water Testing						
13	Rents						
14	Transportation Expense						
15	Insurance - General Liability						
16	Insurance - Health and Life		(33,157)		6,336		
17	Regulatory Expense						25,000
18	Miscellaneous Expense						
19	Depreciation Expense						
20	Property Taxes	6,330					
21	Income Taxes						
22	Total Operating Expenses	\$ 6,330	\$ (33,157)	\$ 31,902	\$ 6,336	\$ -	\$ 25,000
23	Operating Income	\$ (6,330)	\$ 33,157	\$ (31,902)	\$ (6,336)	\$ -	\$ (25,000)
24	Other Income (Expense)						
25	Interest and Dividend Income					\$ (54,790)	
26	Interest Expense					2,161	
27	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ (52,628)	\$ -
28	Net Income (Loss)	\$ (6,330)	\$ 33,157	\$ (31,902)	\$ (6,336)	\$ (52,628)	\$ (25,000)
29							
30							
31	<u>Supporting Schedules:</u>						
32							
33							
34							

Line No.		[R] ADJ RLJ-18	[S] ADJ RLJ-19	[T] ADJ RLJ-20	[U] ADJ RLJ-21	[V] Total Adjustments
1	Revenues					
2	Metered Water Revenues					\$ (53,642)
3	Other Water Revenues					(1,935)
4	Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ (55,577)
5	Operating Expenses					
6	Salaries and Wages		\$ (64,670)			\$ (32,768)
7	Purchased Power					(9,408)
8	Chemicals					-
9	Repairs and Maintenance					-
10	Office Supplies Expense		(1,500)			2,987
11	Outside Services			(13,500)		(13,500)
12	Water Testing		2,184			2,184
13	Rents		21,021			21,021
14	Transportation Expense		(18,293)			(18,293)
15	Insurance - General Liability					-
16	Insurance - Health and Life					(26,821)
17	Regulatory Expense					25,000
18	Miscellaneous Expense		34,823		(642)	(2,086)
19	Depreciation Expense		10,210			98,301
20	Property Taxes					6,330
21	Income Taxes		-			-
22	Total Operating Expenses	\$ -	\$ (16,225)	\$ (13,500)	\$ (642)	\$ 52,947
23	Operating Income	\$ -	\$ 16,225	\$ 13,500	\$ 642	\$ (108,524)
24	Other Income (Expense)					
25	Interest and Dividend Income					\$ (54,790)
26	Interest Expense					2,161
27	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ (52,628)
28	Net Income (Loss)	\$ -	\$ 16,225	\$ 13,500	\$ 642	\$ (161,152)
29						
30						
31	<u>Supporting Schedules:</u>					
32						
33						
34						

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-1

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 5
Witness: Jones

Line

No.

1	<u>Adjust Booked Expenses to Remove Refund of Taxable Advances from Miscellaneous Expense</u>	
2		
3	Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those	
4	Advances that are considered income for tax purposes, Sunrise Water Co. records	
5	a debit in a contra account to Advances in Aid of Construction and a credit to	
6	Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the	
7	Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are	
8	tax entries and should be eliminated for regulatory purposes.	
9		
10	Tax Expense Recorded As Miscellaneous Expense December 21, 2007 G/L	\$ 142,925
11		
12	Increase/(Decrease) in Miscellaneous Expense	<u>\$ (142,925)</u>
13		
14	Adjustment to Revenues and/or Expenses	<u>\$ (142,925)</u>
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-2

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 6
Witness: Jones

Line

No.

1 Adjust Booked Revenue to Remove Meter Advance from Other Water Revenue

2

3 Sunrise Water Co. records all Advances in Aid of Construction in the Advance account. For those
4 Advances that are considered income for tax purposes, Sunrise Water Co. records
5 a debit in a contra account to Advances in Aid of Construction and a credit to
6 Other Water Revenue. When refunds of taxable advances are made, a credit is recorded in the
7 Advance contra account and a debit is recorded in Miscellaneous Expense. These entries are
8 tax entries and should be eliminated for regulatory purposes.

9

10 Tax Income Recorded As Other Water Revenue December 31, 2007 G/L

\$ 1,935

11

12 Increase/(Decrease) in Other Water Revenue

\$ (1,935)

13

14 Adjustment to Revenues and/or Expenses

\$ (1,935)

15

16

Line

No.

1	<u>Adjust Office Supplies Expense to Reflect Postage Increase</u>		
2			
3	During the Test Year Sunrise Water Co billed its customers using a post card bill. In		
4	anticipation of implementing Best Management Practices as required by new ADWR		
5	regulations, Sunrise has gone to a letter size bill to allow for customer messaging, Each		
6	new bill includes the bill, a return envelope and the mailing envelope. Postage		
7	costs have increased due to the new bill format. In addition postage		
8	rate increases have occurred.		
9			
10	Bills mailed during Test Year per BFA		15,891
11			
12	January 1, 2007 Post Card Rate	\$	0.24
13	May 14, 2007 Post Card Rate	\$	0.26
14	Percentage of Bills Mailed at \$0.24		33.3%
15	Percentage of Bills Mailed at \$.026		66.7%
16	Average Postage Cost per Bill During Test Year	\$	<u>0.2533</u>
17			
18			
19	Current Rate for Postage for 8 1/2" x 11" Bill	\$	0.4200
20	Average Postage Cost per Bill During Test Year		<u>0.2533</u>
21	Per Bill Increase in Postage	\$	0.1667
22			
23	Total Increase in Postage Expense	\$	<u>2,649</u>
24			
25	Increase/(Decrease) in Office Supplies Expense	\$	<u>2,649</u>
26			
27	Adjustment to Revenues and/or Expenses	\$	<u>2,649</u>
28			
29			

Line

No.

1	<u>Adjust Office Supplies Expense to Reflect Bill Form and Handling Cost Increase</u>		
2			
3	During the Test Year Sunrise Water Co. billed its customers using a post card bill. In		
4	anticipation of implementing Best Management Practices as required by new ADWR		
5	regulations, as of March 2008, Sunrise has used a letter size bill to allow for customer		
6	messaging. Each new bill includes the bill, a return envelope and the mailing envelope.		
7	Form costs have increased due to the new bill format. Additionally, Sunrise Water Co.		
8	has leased a Pitney Bowes machine that folds and stuffs the bills.		
9			
10	Bills mailed during Test Year per BFA		15,891
11			
21	Per Bill Cost New Bill Format	\$	0.09
22	Per Bill Cost for Post Card Bill Forms during Test Year	\$	0.06
23	Per Bill Increase in Bill Form Cost	\$	0.03
24			
25	Increase in Bill Form Expense	\$	477
26	Pitney Bowes Annual Lease Expense	\$	1,362
27			
28	Total Increase in Billing Cost	\$	1,839
29			
30	Increase/(Decrease) in Office Supplies Expense	\$	1,839
31			
32	Adjustment to Revenues and/or Expenses	\$	1,839
33			
34			

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-5

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 9
Witness: Jones

Line

No.

1	<u>Adjust Metered Water Revenue to Reflect Billed Revenue</u>	
2		
3	During the Test Year Sunrise Water Co. recorded Revenue on a cash basis. For regulatory	
4	purposes revenue should reflect billed revenue without regard to actual collections.	
5		
6	Residential and Commercial Metered Water Revenue Dec. 31, 2007 G/L	\$ 1,273,431
7		
8	Residential and Commercial Metered Water Revenue Per Billing Reports	<u>\$ 1,267,603</u>
9		
10	Difference Book (Cash Basis) vs. Billed Revenue	<u>\$ 5,827</u>
11		
12	Increase/(Decrease) in Metered Water Revenue	<u>\$ (5,827)</u>
13		
14	Adjustment to Revenues and/or Expenses	<u>\$ (5,827)</u>
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-6

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 10
Witness: Jones

Line

No.

1 Adjust Purchased Power to Remove Personal Expense

2

3 During the Test Year APS billings for Owner's home were charged to
4 Purchased Power.

5

6 Personal Utility Expense:

7 January \$ 459.13

8 February \$ 412.04

9 March \$ 287.40

10 April \$ 319.41

11 May \$ 251.48

12 June \$ 351.08

13 July \$ 507.30

14 August \$ 836.94

15 September \$ 700.24

16 October \$ 588.05

17 November \$ 468.35

18 December \$ 243.37

19 Total \$ 5,424.79

20

21 Total Personal Utility Expense Charged to Purchased Power

\$ 5,425

22

23 Increase/(Decrease) in Purchased Power Expense

\$ (5,425)

24

25 Adjustment to Revenues and/or Expenses

\$ (5,425)

26

27

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-7

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 11
Witness: Jones

Line

No.

1	<u>Adjust Purchased Power to Reflect APS Rate Increase</u>	
2		
3	Calculated Power Adjustment	\$ 3,086
4		
5	Total change in Pumping Power Expense due to Rate Increase	<u>\$ 3,086</u>
6		
7	Increase/(Decrease) in Purchased Power Expense	<u>\$ 3,086</u>
8		
9	Adjustment to Revenues and/or Expenses	<u>\$ 3,086</u>
10		
11		
12	<u>Supporting Schedules:</u>	
13	C-2.7	
14		
15		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-8

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 12
Witness: Jones

Line

No.

1	<u>Adjust Metered Water Revenue to Reflect Normalized Level of Hydrant Meter Sales</u>	
2		
3	Sunrise Water Co. makes water available from fire hydrants in its service area to contractors	
4	performing construction within its service area. Hydrant meter sales for the Test Year are	
5	significantly above normal levels due to elevated levels of subdivision construction associated with	
6	high levels of real estate development in 2006 - 2007 and a single large flood control project under	
7	construction during 2007. Normalized hydrant meter sales should be used to avoid inclusion of	
8	nonrecurring revenue in the Test Year	
9		
10	Hydrant Meter Sales (gallons):	
11	Calendar Year 2003	1,074,700
12	Calendar Year 2004	3,640,100
13	Calendar Year 2005	4,759,010
14	Calendar Year 2006	19,574,700
15	Calendar Year 2007	24,966,230
16	Total Hydrant Sales (5-Years)	54,014,740
17		
18	Test Year Hydrant Sales for Flood Control Project	(13,068,700)
19	Adjusted Total Hydrant Sales (5-Years)	40,946,040
20		
21	Average Adjusted Hydrant Sales (5-Yr Period) (gallons)	8,189,208
22	Test Year Hydrant Sales	24,966,230
23		
24	Hydrant Sales in excess of 5-Yr Adjusted Average (gallons)	(16,777,022)
25		
26	Revenue Generated Per 1,000 gallons	\$ 2.85
27		
28	Test Year Hydrant Meter Revenue in Excess of 5-Yr Average	\$ (47,815)
29		
30	Increase/(Decrease) in Metered Water Revenue	\$ (47,815)
31		
32	Adjustment to Revenues and/or Expenses	\$ (47,815)
33		
34		

Sunrise Water Co.

Test Year Ended December 31, 2007

Income Statement Adjustment RLJ-9

Exhibit: RLJ-R1

Schedule C-2 Rebuttal

Page 13

Witness: Jones

Line

No.

1	<u>Adjust Purchased Power to Reflect Hydrant Meter Sales Adjustment</u>	
2		
3	Hydrant Sales are being normalized to 5-Yr Average Sales. Purchased Power should be	
4	reduced to reflect the normalized level of system demand.	
5		
6	Test Year Purchased Power Cost December 31, 2007 G/L	\$ 179,081
7	Less:	
8	Power for Admin/Shop Buildings	2,134
9	Adjustment RLJ-6	<u>5,425</u>
10	Test Year Pumping Power Cost	171,522
11	Pumping Power Adjustment (See RLJ-7)	<u>3,086</u>
12	Adjusted Pumping Power Cost	\$ 174,608
13		
14	Test Year Gallons Pumped	<u>414,409,000</u>
15		
16	Test Year Pumping Power Cost per 1,000 gallons	\$ 0.4213
17		
18	Hydrant Sales Adjustment (See RLJ-8)	(16,777,022)
19		
20	Test Year Power Cost Attributable to Hydrant Sales Adjustment	<u>\$ 7,069</u>
21		
22	Increase/(Decrease) in Purchased Power	<u>\$ (7,069)</u>
23		
24	Adjustment to Revenues and/or Expenses	<u>\$ (7,069)</u>
25		
26		

Line

No.

1	<u>Adjust Miscellaneous Expense to Reflect Normalized Level of Capitalized Overhead</u>		
2			
3	Sunrise Water Co. charges a portion of its administrative and general expenses to capital.		
4	The allocation is based upon the level of capital expenditures in a given year.		
5	During the test year capital expenditures were unusually high. The level of		
6	administrative and general expenses charged to capital should be normalized.		
7			
8			
9	Plant Additions per G/L		
10	Calendar Year 2003	\$	142,071
11	Calendar Year 2004		457,005
12	Calendar Year 2005		127,059
13	Calendar Year 2006		2,422,434
14	Calendar Year 2007		<u>2,983,791</u>
15	Total Plant Additions (5-Years)	\$	6,132,360
16			
17	Less: Land Additions		<u>873,264</u>
18	Plant Additions subject to OH allocation	\$	5,259,096
19			
20	Capital Overhead Allocation per G/L		
21	Calendar Year 2003	\$	3,183
22	Calendar Year 2004		19,844
23	Calendar Year 2005		3,388
24	Calendar Year 2006		67,791
25	Calendar Year 2007		<u>156,874</u>
26	Total Capital Overhead (5-Years)	\$	251,080
27			
28	Capital Overhead Rate (5-Yr Average)		4.77%
29			
30	Average Capital Overhead (5-Yr period)	\$	50,216
31			
32	Capitalized Overhead during Test Year	\$	<u>156,874</u>
33			
34	Capitalized Overhead in excess of Normalized Capital Overhead	\$	<u>106,658</u>
35			
36	Increase/(Decrease) in Miscellaneous Expense	\$	<u>106,658</u>
37			
38	Adjustment to Revenues and/or Expenses	\$	<u>106,658</u>
39			
40			

Line

No.

1	<u>Adjust Depreciation Expense to Reflect Staff Recommended Depreciation Rates</u>					
2						
3		12/31/2007	Plant	Adjusted		
4		Plant	Adjustments	Plant	Staff	Annual
5	December 31, 2007 Plant Balances	<u>Balances</u>	<u>RLJ-1 RLJ-5 RLJ-8</u>	<u>Balances</u>	<u>Rates</u>	<u>Depreciation</u>
6	303 Land and Land Rights	\$ 873,264	\$ 204,304	\$ 1,077,568	0.00%	\$ -
7	304 Structures & Improvements	321,621	-	321,621	3.33%	10,710
8	307 Wells & Springs	1,989,247	15,788	2,005,035	3.33%	66,242
9	311 Pumping Equipment	1,689,043	12,637	1,701,681	12.50%	211,130
10	320 Water Treatment Equipment	-	-	-		-
11	320.2 Solution Feeders	76,874	-	76,874	20.00%	15,375
12	330 Distribution Reservoirs & Standpipes	-	-	-		-
13	330.1 Storage Tanks	439,372	20,244	459,616	2.22%	9,754
14	330.2 Pressure Tanks	48,819	2,249	51,068	5.00%	2,441
15	331 Transmission and Distribution Mains	3,471,502	372,345	3,843,847	2.00%	69,430
16	333 Services	405,494	14,258	419,752	3.33%	13,503
17	334 Meters	21,879	8,787	30,666	8.33%	1,823
18	335 Hydrants	366,179	5,390	371,569	2.00%	7,324
19	340 Office Furniture and Equipment	-	-	-	6.67%	-
20	340.1 Computers and Software	27,777	-	27,777	20.00%	5,555
21	343 Tools, Shop and Garage Equipment	12,763	-	12,763	5.00%	638
22	347 Miscellaneous Equipment	8,207	338	8,545	10.00%	821
23		9,752,043	656,339	10,408,383		
24	Staff Recommended Annual Depreciation				4.44%	\$ 414,746
25						
26	12/31/07 CIAC Balance					425,049
27						
28	Composite Depreciation Rate					<u>4.44%</u>
29						
30	Amortization of CIAC					\$ 18,893
31						
32	Calculated Depreciation Expense using Staff Recommended Depreciation					\$ 395,853
33						
34	Depreciation Recorded during Test Year					<u>\$ 307,762</u>
35						
36	Calculated Depreciation in excess of Test Year Depreciation					<u>\$ 88,091</u>
37						
38	Increase/(Decrease) in Depreciation Expense					<u>\$ 88,091</u>
39						
40	Adjustment to Revenues and/or Expenses					<u>\$ 88,091</u>
41						
42						

Sunrise Water Co.

Test Year Ended December 31, 2007

Income Statement Adjustment RLJ-12

Exhibit: RLJ-R1

Schedule C-2 Rebuttal

Page 16

Witness: Jones

Line

No.

1	<u>Adjust Property Taxes to Reflect Proposed Revenues</u>	
2		
3	Adjusted Revenues in year ended 12/31/07	\$ 1,304,363
4	Adjusted Revenues in year ended 12/31/07	1,304,363
5	Proposed Revenues	<u>\$ 1,522,229</u>
6	Average of three year's of revenue	<u>\$ 1,376,985</u>
7	Average of three year's of revenue, times 2	\$ 2,753,969
8	Add:	
9	Construction Work In Progress at 10%	5,709
10	Deduct:	
11	Net Book Value of Transportation Equipment	<u>\$ -</u>
12		
13	Full Cash Value	\$ 2,759,678
14	Assessment Ratio (2008)	<u>22.5%</u>
15	Assessed Value	\$ 620,928
16	Property Tax Rate (Test Year)	<u>10.0306%</u>
17	Property Tax with Proposed Rates	\$ 62,283
18	Property Taxes in Test Year	55,953
19	Change in Property Taxes	<u>\$ 6,330</u>
20		
21	Increase/(Decrease) in Property Taxes	<u>\$ 6,330</u>
22		
23	Adjustment to Revenues and/or Expenses	<u>\$ 6,330</u>
24		
25		
26		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-13

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 17
Witness: Jones

Line

No.

1	<u>Adjust Insurance - Health and Life to Remove Personal Expense</u>	
2		
3	During the Test Year health care expenses for Owner were charged to	
4	Insurance - Health and Life.	
5		
6	Total Personal Health Care Expense Charged to Insurance - Health and Life	33,157
7		
8	Increase/(Decrease) in Insurance - Health and Life Expense	<u>\$ (33,157)</u>
9		
10	Adjustment to Revenues and/or Expenses	<u>\$ (33,157)</u>
11		
12		

Line

No.

1	<u>Adjust Salaries and Wages Expense</u>	
2		
3	Adjusted Test Year Salary Expense ¹	\$ 414,840
4		
5	Test Year Salary Expense per G/L	382,937
6		
7	Increase/(Decrease) in Salaries and Wages Expense	<u>\$ 31,902</u>
8		
9	Adjustment to Revenues and/or Expenses	<u>\$ 31,902</u>
10		
11	¹ Sunrise includes all payroll taxes in its Salaries and Wage Expense Account	
12		
13	<u>Supporting Schedules:</u>	
14	C-2.14	
15		
16		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-15

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 19
Witness: Jones

Line

No.

1 Adjust Health Insurance Expense

2

3 Adjusted Test Year Health Insurance Expense

\$ 50,775

4

5 Test Year Health Insurance Expense per G/L

44,438

6

7 Increase/(Decrease) in Health Insurance Expense

\$ 6,336

8

9 Adjustment to Revenues and/or Expenses

\$ 6,336

10

11

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-16

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 20
Witness: Jones

Line

No.

1	<u>Remove Other Income and Expenses to Eliminate Effects on Income Taxes</u>	
2		
3	Test Year Interest Income	\$ 54,790
4	Test Year Interest Expense	<u>(2,161)</u>
5		
6	Total Other Income / (Expense)	\$ 52,628
7		
8	Increase/(Decrease) in Other Income / (Expense)	<u>\$ (52,628)</u>
9		
10	Adjustment to Revenues and/or Expenses	<u>\$ (52,628)</u>
11		
12		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-17

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 21
Witness: Jones

Line

No.

1	<u>Regulatory Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 75,000
4		
5	Estimated Amortization Period in Years	<u>3</u>
6		
7	Annual Rate Case Expense	25,000
8		
9	Test Year Regulatory Expense	<u>-</u>
10		
11	Increase in Rate Case Expense	\$ 25,000
12		
13	Increase/(Decrease) in Rate Case Expense	<u>\$ 25,000</u>
14		
15	Adjustment to Revenues and/or Expenses	<u>\$ 25,000</u>
16		
17		

Sunrise Water Co.

Test Year Ended December 31, 2007

Income Statement Adjustment RLJ-18

Exhibit: RLJ-R1

Schedule C-2 Rebuttal

Page 22

Witness: Jones

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Calculation of Income Taxes at Proposed Rates</u>		
2			
3			
4	Income Before Taxes	\$ (27,466)	\$ 190,400
6	Arizona Taxable Income	(27,466)	190,400
7			
8	Less Arizona Income Tax 6.9680%	\$ -	\$ 13,267
9			
10	Apparent Arizona Tax Rate ¹³		6.0896%
11			
12	Federal Income Before Taxes	\$ (27,466)	\$ 190,400
13	Less Arizona Income Taxes	-	13,267
14	Federal Taxable Income	\$ (27,466)	\$ 177,133
15			
16	FEDERAL INCOME TAXES:		
17	15% BRACKET UP TO 50,000	-	7,500
18	25% BRACKET UP TO 75,000	-	6,250
19	34% BRACKET UP TO 100,000	-	8,500
20	39% BRACKET UP TO 335,000	-	30,082
21	34% BRACKET OVER 335,001	-	-
22			
23	Federal Income Taxes:	\$ -	\$ 52,332
24			
25	Effective Federal Tax Rate		29.5438%
26			
27	Apparent Federal Tax Rate ²³		25.5778%
28			
29	Total Income Tax	\$ -	\$ 65,599
30			
31	Overall Effective Tax Rate	0.0000%	34.4532%
32			
33	Test Year Income Taxes, Per Books	\$ -	
34	Increase in Income Taxes	-	
35			
36	Adjustment to Revenues and/or Expense	\$ -	
37			
38	Test Year Income Taxes, Adjusted		\$ -
39			
40	Increase in Income Taxes		65,599
41			
42	Adjustment to Revenues and/or Expense		\$ 65,599
43			

¹ Apparent Arizona Tax Rate is the change in State tax due divided by the change in Arizona Taxable Income

² Apparent Federal Tax Rate is the change in Federal tax due divided by the change in Federal Taxable Income

³ Calculation of Apparent Tax Rates is necessary to correctly calculate Gross Revenue Conversion Factor when Test Year Taxable Income is less than zero and is taxed at a rate of zero or when increased income is taxed at different marginal tax rates.

49

Line

No.

1	<u>Adjustment to account for accepted Staff Operating Income Adjustments</u>	
2		
3	Salaries and Wages:	
4	Staff Operating Income Adjustment No. 2	\$ (68,913)
5	Staff Operating Income Adjustment No. 3	4,243
6	Total Salaries and Wages Staff Adjustment	<u>\$ (64,670)</u>
7		
8	Office Supplies Expense:	
9	Staff Operating Income Adjustment No. 5	\$ (1,500)
10	Total Office Supplies Expense Staff Adjustment	<u>\$ (1,500)</u>
11		
12	Water Testing Expense:	
13	Staff Operating Income Adjustment No. 7	\$ 2,184
14	Total Water Testing Expense Staff Adjustment	<u>\$ 2,184</u>
15		
16	Rent Expense:	
17	Staff Operating Income Adjustment No. 10	\$ 1,500
18	Staff Operating Income Adjustment No. 11	19,521
19	Total Rent Expense Staff Adjustment	<u>\$ 21,021</u>
20		
21	Transportation Expense:	
22	Staff Operating Income Adjustment No. 12	\$ (3,508)
23	Staff Operating Income Adjustment No. 13	(8,485)
24	Staff Operating Income Adjustment No. 14	(6,300)
25	Total Transportaion Expense Staff Adjustment	<u>\$ (18,293)</u>
26		
27	Miscellaneous Expense:	
28	Staff Operating Income Adjustment No. 16	\$ (2,285)
29	Staff Operating Income Adjustment No. 17	6,413
30	Staff Operating Income Adjustment No. 18	50,216
31	Staff Operating Income Adjustment No. 19	(19,521)
32	Total Miscellaneous Expense Staff Adjustment	<u>\$ 34,823</u>
33		
34	Depreciation Expense	
35	Staff Operating Income Adjustment No. 20	\$ 10,210
36	Total Depreciation Expense Staff Adjustment	<u>\$ 10,210</u>
37		
38	Total Accepted Staff Operating Income Adjustments	<u>\$ (16,225)</u>
39		
40		

Sunrise Water Co.
Test Year Ended December 31, 2007
Income Statement Adjustment RLJ-20

Exhibit: RLJ-R1
Schedule C-2 Rebuttal
Page 24
Witness: Jones

Line

No.

1 Partial Acceptance of Staff Operating Income Adjustment No. 6

2

3 Outside Services Expense:

4 Cost of Services Provided by SRW Consulting

\$ 27,000

5

6 50% Reduction in Cost

\$ (13,500)

7

8 Increase/(Decrease) in Outside Services Expense

\$ (13,500)

9

10 Adjustment to Revenues and/or Expenses

\$ (13,500)

11

12

Sunrise Water Co.

Test Year Ended December 31, 2007

Income Statement Adjustment RLJ-20

Exhibit: RLJ-R1

Schedule C-2 Rebuttal

Page 25

Witness: Jones

Line

No.

1	<u>Partial Acceptance of Staff Operating Income Adjustment No. 15</u>	
2		
3	Miscellaneous Expense:	
4	Permit/Recording Fees that should be capitalized	\$ 642
5		
6	Increase/(Decrease) in Miscellaneous Expense	<u>\$ (642)</u>
7		
8	Adjustment to Revenues and/or Expenses	<u>\$ (642)</u>
9		
10		

Test Year Ended December 31, 2007
Changes in Representative Rate Schedules

Witness: Jones
Revised: 9/8/2008

No.

2

22

25

33353637383940

44

46

48

49

45

Sunrise Water Co.
Test Year Ended December 31, 2007
Changes in Representative Rate Schedules

Exhibit: RLJ-R1
Schedule H-3 Rebuttal
Page 2
Witness: Jones
Revised: 9/8/2008

Line

No.

		Present	Proposed Rates		
			<u>Srv. Line</u>	<u>Meter</u>	<u>Total</u>
1	<u>Service Line and Meter Installation Charges</u>				
2		<u>Rates</u>			
3					
4	3/4" Meter	\$ 275.00	\$ 445.00	\$ 255.00	\$ 700.00
5	1" Meter	\$ 325.00	\$ 495.00	\$ 315.00	\$ 810.00
6	1 1/2" Meter	\$ 550.00	\$ 550.00	\$ 525.00	\$ 1,075.00
7	2" Meter (PD or Turbo)	\$ 800.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
8	2" Meter (Compound)	n/t	\$ 830.00	\$ 1,890.00	\$ 2,720.00
9	3" Meter and above	n/t	At Cost	At Cost	At Cost

10

11 All service line and meter advances shall include labor, materials and parts, overheads and all applicable taxes,
12 including gross-up taxes for Federal and State taxes, if applicable.

13

14 n/t - no tariff

15

	Present	Proposed
	<u>Rates</u>	<u>Rates¹</u>

16

17	<u>Private Fire Service</u>		
18			
19	4" Fire Line Service	n/t	\$ 25.00
20	6" Fire Line Service	n/t	\$ 35.00
21	8" Fire Line Service	n/t	\$ 45.00

22

23 ¹ Sunrise has filed a tariff to establish Private Fire Service at the rates indicated.

24

25

EXHIBIT

RLJ – R2

**MARICOPA COUNTY
ENVIRONMENTAL SERVICES
DEPARTMENT**



**BUSINESS SERVICES DIVISION
1001 N Central Ave, Suite 100
Phoenix, AZ 85004**

PERMIT RENEWAL INVOICE

*MCEC
11/28/07*

**SUNRISE WATER CO
9098 W PINNACLE PEAK RD
PEORIA, AZ 85383**

BUSINESS: SUNRISE WATER CO
ADDRESS: 9098 W PINNACLE PEAK RD
CITY: PEORIA, AZ
PHONE: (623) 972-6133

PERMIT: 07070
EXPIRATION: 12/31/07

PERMIT TYPE: WATER PUBLIC/COMMUNITY
1,001 - 10,000 POPULATION

FEE: \$3350.00
BALANCE DUE: \$3350.00
TOTAL: \$3350.00

Pursuant to Maricopa County Health Code, Chapter 1, Regulation 5a, this is an invoice for your permit renewal fee. Please sign and return this invoice with your remittance prior to December 31, 2007. A \$30.00 delinquency fee becomes due if payment is not received within one calendar month of the due date, pursuant to Regulation 4g(3). No permit is valid until payment is made in full.

This fee was based on a flat fee amount of \$2000.00 and a per well rate of \$270.00 and a per plant rate of \$1350.00.

No permit is transferable from person-to-person or place-to-place and enforcement action may be taken for operating without a valid permit, Regulation 4h. If you have questions regarding the Health Code or the inspection, please call (602) 506-6668.

Make check payable to Maricopa County Environmental Services Department or MCESD. If you have a billing question or a mailing address change please call (602) 506-6616 or fill out an Administrative Change Request form at [www. Maricopa.gov/envsvc](http://www.Maricopa.gov/envsvc).

IF YOU ARE A NEW OWNER, THIS APPLICATION IS INVALID AND YOU SHOULD NOT PAY THIS INVOICE.

I/We assume complete responsibility for the business to be conducted at the premises for which I/we are making application for an operating permit.

I/We certify that the establishment will be operated in full compliance with all applicable environmental regulations duly adopted and all other Local, County, and State rules, Ordinances and Regulations pertaining thereto.

I/We understand that I/We are responsible for knowing the contents of the applicable regulations as they pertain to said business.

Signature _____ Date _____

Please Print Name _____ Phone _____

FOR OFFICE USE ONLY

Receipt Number _____

Date Received _____

**ONLY CHECKS CONTAINING
PRE- PRINTED NAME AND
ADDRESS WILL BE ACCEPTED
FOR PAYMENT BY THE
DEPARTMENT**

FLAT FEE: \$2000.00
NO. OF WELLS: 5 * \$270.00
NO. OF PLANTS: 0 * \$1350.00

Print Date: 11/21/07

-EN-07070